

Criminal Justice Involvement, Self-employment, and Barriers in Recent Public Policy*

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Abstract

This study provides the first empirical evidence on the extent of self-employment within the U.S. justice-involved population. Using linked tax return and Criminal Justice Administrative Records System data, we find that between 28% of individuals with criminal records are self-employed. Justice-involved individuals are 22% more likely to rely solely on self-employment. The Paycheck Protection Program, passed to support small business during the COVID-19 pandemic, initially disqualified those with a broad range of criminal histories. We find that these criteria potentially excluded up to 1.3 million sole-proprietors (5%) from PPP eligibility, with a disparate impact on Black and Hispanic business owners.

Keywords: self-employment, criminal histories, federal support programs, Paycheck Protection Program, COVID-19

JEL classification codes: H81, J24, K42

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1 Introduction

Population contact with the U.S. criminal justice system has grown substantially in recent decades. Incarceration rates increased from 118 to 519 persons incarcerated per 100,000 between 1960 and 2010.¹ Recent estimates suggest that 8% of all adult men have a felony conviction and 3% have been to prison, which is most pronounced within minority communities (Shannon et al. 2017). Individuals with criminal records face significant barriers to employment (e.g., Pager 2003; Holzer, Raphael, and Stoll 2003, 2007; Mueller-Smith and Schnepel 2021).

In 2019, the Department of Labor allocated \$87.5 million towards grants to improve the employment opportunities of those leaving the corrections system. One approach focuses on entrepreneurship, represented by the work of a growing number of nonprofit organizations (e.g., Defy, Project ReMADE, LIFE Reentry Program for Women Prisoners, the Prison Entrepreneurship Program). If justice-involved individuals face labor market discrimination, they may be better off starting their own businesses and employing themselves. However, quantitative evidence on the scope and effectiveness of entrepreneurship and self-employment in this population is essentially non-existent.²

In this paper, we document the first empirical evidence on self-employment rates among justice-involved individuals, the corresponding industrial composition, and comparisons to general population benchmarks. We perform the first linkage between criminal histories from the Criminal Justice Administrative Records System (CJARS) (Finlay and Mueller-Smith 2020) and tax filings from the Internal Revenue Service (IRS). The analysis focuses on five states (Arizona, Michigan, North Carolina, Texas, and Wisconsin), which together represent approximately 20% of the U.S. population.

We find that 28% of individuals with criminal records report business income to the IRS in the 2014–2018 tax years. Filing rates are especially high for Black and Hispanic women with criminal records at 42% and 32%, respectively. Using covariate-adjusted regression models, we find that those with criminal records are 2.0 percentage points (22%) more likely to rely solely

¹Authors’ calculations using state and federal prison counts (<https://www.sentencingproject.org/criminal-justice-facts/>) and 1960 and 2010 Decennial Census information.

²A contemporaneous effort in Hwang and Phillips (2020) and Bushway et al. (2021) are the two clear exceptions. Hwang and Phillips (2020) documents higher rates of self-employment among formerly incarcerated respondents in the NLSY and Bushway et al. (2021) provide valuable information on the number of small business owners excluded from PPP due to criminal record disqualifications at a national level and how many business owners were impacted by changes to the restrictions, and independently validate our previous estimates using a new, alternative approach.

on self-employment than the general population.³ The businesses owned by self-employed people with criminal records generate total revenues that are 8.5% larger than those of the businesses owned by self-employed people without criminal records. Individuals with criminal records are disproportionately self-employed in construction, “other services” (e.g., automotive repair, hair salons, etc.), and waste management than the general population.

These findings highlight the prevalence of self-employment among the criminal justice population, with important implications for research and policy. We now know the criminal justice population is disproportionately engaged in self-employment as a means of achieving self-sufficiency, a form of economic activity consistent with existing research on criminal records and labor market discrimination. Further attention is merited in the literature since self-employment is unmeasured in most employment datasets (e.g., unemployment insurance wage records or W-2 information returns), potentially leading to underestimates of work and income among the justice-involved population.

Whether federal support for small businesses should extend to those with criminal histories has received renewed focus because of the establishment of the Paycheck Protection Program (PPP) in response to the COVID-19 pandemic. This program, administered by the Small Business Administration (SBA), provided forgivable loans to small businesses as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act.⁴ While the SBA has a history of collecting personal information and criminal histories via Form 912, the initial rollout of the PPP included strict, non-discretionary eligibility cutoffs based on prior justice contact for the first time in recent history. Initial rules made businesses with an owner of 20 percent or more equity with a broad range of criminal backgrounds ineligible for program benefits.⁵ The goal of the criminal disqualification criteria was to reduce the rate of fraud, waste, and abuse in the program,⁶ which is part of SBA’s core

³Reliance on self-employment in a given year is defined as filing a Schedule C and having W-2 information returns totalling less than \$1,000.

⁴Public Law 116-136 Sections 1102 and 1106, amended in Public Law 116-139 on April 24 and Public Law 116-142 on June 5.

⁵The disqualifying criteria included being presently incarcerated, on probation, on parole; subject to an indictment, criminal information, arraignment, or other means by which formal criminal charges are brought in any jurisdiction; or within the last five years, for any felony, has been convicted; pleaded guilty; pleaded nolo contendere; been placed on pretrial diversion; or been placed on any form of parole or probation (including probation before judgment).

⁶Although concerns have been raised about the role of FinTech firms in promoting fraud in PPP assistance (Griffin, Kruger, and Mahajan 2021), there is no evidence to suggest that those with broadly defined criminal histories have higher or lower likelihoods of engaging in this type of white-collar criminal activity when applying through a traditional financial institution.

mission. At the outset, it was unclear how many small businesses might be ineligible to apply for assistance as a result of these criminal history restrictions, and over time, the SBA began narrowing the scope of PPP criminal disqualifications starting in June 2020.^{7,8}

We leverage our linked data to measure the scope of the original PPP restrictions. While most of the disqualifying criteria are no longer in place, the original policy likely had a lasting impact since initial businesses survival at the start of the pandemic has been linked to PPP support (Bartik, Cullen, et al. 2020; Bartik, Bertrand, et al. 2020). We find that a small but non-trivial share of small business owners have disqualifying criminal histories based on the original rules. In Michigan and Texas, where we can observe full criminal histories most accurately, we find that 5.1% and 2.8% of non-farm sole-proprietors (Schedule C filers) were ineligible due to the criminal disqualifications. We observe significantly higher rates of ineligibility among Black and Hispanic owners for men and women (127% to 409% higher compared to their White counterparts), indicating a disparate racial impact of the original Small Business Administration (SBA) criminal history rules.

2 Background

2.1 Barriers to employment for criminal offenders

Income stability has long been recognized as an important mechanism for reducing recidivism (Uggen, Wakefield, and Western 2005). However, individuals with criminal records often face labor market discrimination making this goal unattainable (Bushway, Stoll, and Weiman 2007). Some discrimination is institutionalized in the form of state laws that impose occupational restrictions for people with certain criminal histories.⁹ However, even among legally accessible jobs there is an aversion to hiring individuals with criminal records. Holzer, Raphael, and Stoll (2003) report that over 60% of employers in Los Angeles were unwilling to hire someone with a criminal record. This is reflected in a prisoner reentry study surveying 740 recently released individuals of whom 75%

⁷An earlier draft of this paper, Finlay, Mueller-Smith, and Street (2020), has been acknowledged as contributing to the SBA’s decision to narrow the disqualification criteria. See DEFY Ventures, INC. v. U.S. Small Business Administration (2020), Arnold Ventures (2021), and Bushway et al. (2021).

⁸These restrictions were limited to any felony conviction within the past year or a felony conviction related to fraud, bribery, embezzlement, or a false statement on a loan or federal assistance application within the past five years, individuals starting probation/parole within the last year or individuals starting probation/parole for the same offenses previously listed within the past five years and individuals presently charged with a criminal *felony* offense in June 2020 (Small Business Administration 2020). The restriction for non-fraud felonies within the last year was later removed under the Biden administration for those not currently incarcerated (The White House 2021).

⁹See the National Inventory of Collateral Consequences of Conviction: <https://niccc.csjusticecenter.org>.

reported actively searching for work, but only 45% were currently employed and 70% felt as though their criminal record had affected their job search (Visher, Debus-Sherrill, and Yahner 2011).

Pager’s (2003) influential audit study documents the presence of such discrimination. Individuals that conveyed they had a criminal record, most often through a question on the application explicitly asking for this information, were 50% less likely to make it past the initial screening.¹⁰ Discrimination based on criminal records is especially pronounced for young black men (Pager 2003; Pager, Western, and Sugie 2009; Holzer, Raphael, and Stoll 2003) and, while it is present in tighter labor markets, only gets worse in softer labor markets (Pager 2003; Sabol 2007).¹¹

Ultimately, employers’ preferences over criminal records have a real long-term impact on employment and wages for those with criminal records. Mueller-Smith and Schnepel (2021) show that individuals who avoid having their first felony conviction on their record, through changes in diversion, are more likely to be employed in the short- and long-run, have higher wages and have longer spells of continuous employment than those who narrowly received their first felony conviction record. Thus, individuals facing these barriers to employment are left with either self-employment, informal employment, illegal employment, or unemployment.

2.2 Evidence on self-employment and entrepreneurship

Research has shown that self-employed individuals earn less than their employer-based counterparts (Hamilton 2000). Lower initial and long-run earnings could reflect several things: non-pecuniary benefits, overestimation of payoffs, or a lack of outside options. Heilman and Chen (2003) argue that women and minorities choose to be self-employed at higher rates than men and Whites because of employer discrimination based on family duties, gender, and race. These arguments can be extended to other marginalized groups, particularly those with criminal records. Hwang and Phillips (2020) document higher rates of self-employment among formerly incarcerated respondents in the NLSY, particularly in states without Ban-the-Box policies. We contribute to this literature using novel data linkages between administrative tax and criminal justice data, allowing us to measure self-employment across a broad range of criminal justice exposure at the population level without the

¹⁰The initial study was in Milwaukee and the findings were replicated in New York City in Pager, Western, and Sugie (2009).

¹¹People released from prison into worse labor market conditions are more likely to recidivate, which suggests that legal employment opportunities are an important way to reduce recidivism and that discrimination based on criminal records could be worse in looser labor markets (Yang 2017; Schnepel 2018; Agan and Makowsky 2018).

limitations common in surveys.

Historically, it has been difficult to quantify the extent to which those with criminal justice involvement improve their economic standing through self-employment due to data constraints. Labor market outcomes are commonly studied using Unemployment Insurance (UI) wage records or W-2 information returns. However, self-employed individuals are not captured in these administrative records leaving questions related to self-employment intractable.

There are no large national household surveys in the U.S. that ask respondents about both criminal histories and specific sources of income. Some targeted surveys about the incarcerated population do collect information about income, but sources of income are not differentiated sufficiently to study self-employment. More generally, a drawback of household surveys in this context is the potential for social desirability bias to lead to underestimates of criminal justice involvement. Justice-involved individuals are also likely to be disproportionately underrepresented in surveys because of low residential stability (Roman and Travis 2004), low educational attainment (Harlow 2003), and membership in minority groups (Carson and Anderson 2016)—characteristics all associated with poor sample coverage.

Measuring the self-employment of justice-involved individuals contributes both to our understanding of how people with criminal records can achieve economic self-sufficiency and the impacts of policies or restrictions related to small businesses. For example, Fairlie (1999) and Blanchflower, Levine, and Zimmerman (2003) document discrimination against minorities in small business lending, which create additional barriers to self-employment for these groups. More recently, the Payroll Protection Program (discussed in detail in Section 5) initially enforced explicit loan disqualifications based on criminal histories.

3 Using novel data linkage to measure self-employment in the justice-involved population

We use novel microdata available through the Federal Statistical Research Data Centers to measure individual criminal and employment histories. We use CJARS to construct criminal histories. We identify non-farm sole proprietors from Internal Revenue Service Form 1040 individual tax returns. These data were linked at the person level using Census Bureau-assigned Protected Identification

Keys (PIKs).¹²

3.1 Observable criminal histories

Our analysis focuses on five states in CJARS where both criminal court and correctional records are present: Arizona, Michigan, North Carolina, Texas and Wisconsin. Together, these states represent approximately 20% of the U.S. population. Depending on the jurisdiction, the records extend back as early as the 1970s and identify dated incidences of charges, convictions, and spells of correctional supervision (i.e., probation, incarceration, and parole). An individual is defined as having a criminal history if they are observed with one or more misdemeanor convictions, felony convictions, or correctional events in the state where they are observed filing taxes.

There is some variation in procedural coverage across the five states. CJARS data from all five states cover misdemeanor and felony convictions under state statute and records of prison sentences. CJARS does not include community corrections data from all states. And, in addition to offenses associated with state statutes, data from Michigan cover misdemeanor records associated with violations of local ordinances. In the online appendix, we describe the types of records and years of coverage in more detail.

3.2 Tax-based measures of employment

We measure self-employment based on whether a person filed a Form 1040 individual tax form with a Schedule C to IRS the 2014 through 2018 tax years. Self-employed, non-farm sole-proprietors and independent contractors are required to file a Schedule C and self-employed farmers a Schedule F. Farm and non-farm sole-proprietors, independent contractors, self-employed individuals, and partnerships are required to report net profits subject to self-employment taxes using a Schedule SE.¹³ Sole proprietorship is the most common form of reported self-employment; 17% of households that filed Form 1040s also filed Schedule C forms in 2016 (Internal Revenue Service 2016a, 2016d).

The vast majority of self-employed individuals that we can identify from Schedule C, F, or SE tax forms (2014–2018 tax years) are non-farm sole-proprietors filing a Schedule C (93%). Moreover, there is considerable overlap among those filing self-employment taxes (Schedule SE) with 93%

¹²See <https://census.gov/datalinkage> for more information.

¹³In 2016, there were 1,750,996 farm and 25,063,932 non-farm sole-proprietors returns (Internal Revenue Service 2016d).

identified as sole-proprietors filing a Schedule C. Farm sole-proprietors constitute only 4% of self-employed individuals identified from Form 1040 filers and 37% of these farmers also file a Schedule C.

We are unable to identify other forms of self-employment, such as partnerships or corporations whose owners are required to file business tax forms.^{14,15} Thus, we focus on Schedule C filing as our measure of small business ownership, which captures all non-farm sole-proprietors and independent contractors. For this set of small businesses, we can identify the business owner, the self-employment income, the business revenue, and the firm’s industry.

Form 1040 and Schedule C are filed at the household level. Joint filing could create an issue of either double counting self-employed persons or misidentifying the self-employed individual, which is of particular concern given gender differences in identifying as the primary filer on the Form 1040 and differences in the likelihood of joint filing that may vary by whether a filer has a criminal history.¹⁶ We are able to identify the business owner as the self-employed person by linking the Census Bureau Business Register to the set of Schedule C filers. We assign the primary filer as the business owner for the small subset of Schedule C tax filers where business information is not available.

We also measure employer-based employment using the universe of IRS W-2 information returns filed in the 2013 through 2018 tax years. The employer who filed the W-2 form can be linked to the Business Register, and thus employees can be linked to sectors. We use these links to measure common sectors of employment for the justice-involved population, their job experience, and the industries in which they have the highest cumulative employer-based earnings before they start businesses.

¹⁴Specifically, we do not observe partnerships filing a Schedule K-1 (Form 1065) or Schedule E (Form 1040); corporations filing Form 1120 and either a Form 941, 943, or 940 for tax withholding; S-corporations filing a Form 1120-S and Schedule K-1; and some limited liability companies (LLCs). The IRS treats single-member LLCs as sole-proprietors (observed) and multi-member LLCs as partnerships (not observed). LLCs can also opt to be treated as corporations, in which case they are not observed. Independent contractors file a Schedule C and are observed.

¹⁵In 2016, there were 3,763,117 partnerships with 28,163,819 partners (Internal Revenue Service 2016b), 4,592,042 returns for S-corporations, and a total of 6,188,676 corporations (including S-corporations) (Internal Revenue Service 2016c). Independent contractors and self-employed people that receive a Form 1099-MISC report income and expenses on a Schedule C and file self-employment taxes using a Schedule SE if net profits are over \$400.

¹⁶Only legally married individuals may jointly file IRS income taxes on Form 1040, although they may still choose to file individually.

4 Quantifying the scope of self-employment

4.1 Self-employment rates by criminal history

We examine the Schedule C filing rates of people with varying criminal histories in Figure 1. As a baseline, we consider all individuals who filed at least one Form 1040 between the 2014 and 2018 tax years in one of the five CJARS states and was employed in one of those years, as evidenced by at least one W-2 form filing or Schedule C filing.¹⁷ Given that recent criminal justice involvement may lead to incapacitation, we exclude individuals who are incarcerated in three or more years of the study period to eliminate mechanical relationships between labor supply and incarceration.

We first consider people in the baseline population who do not have criminal records in the CJARS data. Of employed people without a record, 24% file a Schedule C at least once between the 2014 and 2018 tax years.¹⁸ Individuals with all types of criminal histories have Schedule C filing rates greater than the group without criminal records. In particular, people with any felony criminal convictions have the highest rates of Schedule C filing, consistent with the hypothesis that more serious criminal records create stronger barriers to formal employment, although it is also possible that varying attitudes and preferences towards self-employment also explain this heterogeneity.¹⁹ Individuals who were under correctional supervision in the last five years have somewhat lower rates of Schedule C filing than the charge and conviction groups. This may be caused by some combination of incapacitation, volatile employment histories, and conditional release requirements that they establish employer-based employment. This last effect would pull more people into our employed sample while reducing the propensity for individuals to be self-employed. Overall, these findings suggest self-employment income represents an important path to self-sufficiency for the justice-involved population.

¹⁷Being observed on a Form 1040 does not necessarily indicate employment, as married couples may file jointly and individuals may report non-labor market income.

¹⁸This varies some by state, with rates at 16.7% and 27.4% in Wisconsin and Texas, respectively. See Table A1 for our full set of state-specific results.

¹⁹At the high end, over one-third of Texans with a felony conviction had self-employment income registered with the IRS between 2014 and 2018 (approximately 200,000 individuals).

4.2 Self-employment rates by demographic group

Distinct self-employment patterns emerge by demographic subgroup within the justice-involved population, defined as those with a criminal conviction or correctional spell.²⁰ In Figure 2, we examine how their Schedule C filing rates vary by race and ethnicity, sex, and age, and how those rates compare with the non-justice-involved population.^{21,22}

People with criminal justice involvement are substantially more likely to be self-employed than those who do not have criminal histories, with the exceptions of White individuals and older men. Among those exceptions, White women and older men exhibit essentially the same levels of self-employment with or without justice involvement, and White men are only separated by one percentage point.

In the general population, men are more likely to be self-employed than women. But justice involvement flips that relationship overall and for most subgroups. Men without criminal justice involvement are 3 percentage points more likely to file a Schedule C than their female counterparts, while women with criminal records are 2 percentage points more likely to than their male counterparts.²³

Among all demographic groups, justice involvement is associated with the largest increase in self-employment for Black women. 28% of non-justice-involved Black women file a Schedule C, while 43% of justice-involved Black women do. This increase of 15 percentage points compares with an increase of 2 percentage points for Black men. Both Hispanic men and women with justice involvement have substantially higher Schedule C filing than their non-justice-involved counterparts. For Hispanic men, a criminal history is associated with a 3 percentage point increase in self-employment. For Hispanic women, the increase is even larger at 9 percentage points.

Of people without criminal histories, younger adults who are less than 30 years of age are much less likely to be self-employed than adults 30 years of age or older. Criminal justice involvement is associated to substantially higher Schedule C filing among younger men and women. The increase

²⁰Note that the relative prevalence of specific forms of contact may vary by demographic group, which should be kept in mind when interpreting the results in this and subsequent sections.

²¹State-specific results in tabular format for this exercise are provided in the Table A2.

²²Demographics are measured using the Census Numident. For race and ethnicity, we differentiate non-Hispanic White, non-Hispanic Black, and Hispanic individuals.

²³Higher rates of self-employment among low-income women may reflect a desire to have greater control over income targeting in order to remain eligible for the Earned Income Tax Credit (Saez 2010; Chetty and Saez 2013).

is particular prominent for younger women; self-employment is 12 percentage points higher among younger justice-involved women than their non-justice-involved peers.

4.3 Industry of employment

We next explore in which industries, as measured by 2-digit North American Industry Classification System (NAICS) codes, justice-involved individuals work either through self-employment or standard employment arrangements compared to the general population (Figure 3a and 3b). We consider all individuals in the five CJARS states who are 18 years or older as of April 3, 2018, and link to their employer-based (W-2 information returns) and self-employed (Schedule C filings) work histories. Justice-involved individuals are more likely to be self-employed in construction, other services, and waste management industries and less likely to be in professional, scientific and technical services or retail and trade industries than non-justice-involved self-employed individuals. Justice-involved individuals are also more likely to be employer-employed in construction and waste management industries as well as accommodation and food services and manufacturing; the latter two industries are not prevalent self-employment industries for either those with or without criminal justice records due to those industry’s high capital costs.

“Other services” are services not related to trade, transportation, utilities, information, financial activities, professional services, education, health, or hospitality. We further disaggregate other services into 4-digit NAICS codes since this industrial category has previously received limited attention in the literature. Figure 3c shows that within this sector individuals with criminal records are most likely to gain self-employment in automotive repair and maintenance and personal care services relative to self-employed people without criminal records. Personal care services include barber shops, beauty and nail salons, dieting services, and other personal care businesses.

Self-employed people may choose to start businesses in the same sectors in which they have employer-based work experience. We explore this by looking at new Schedule C filers in 2018 and the industry of highest cumulative earnings from W-2 information returns in the preceding five years, 2013 through 2017. Self-employed individuals with criminal records in construction and waste management show a higher degree of in-sector experience than the general population: 30% and 17% compared to 23% and 11%, respectively (Figures 4a and 4b). Interestingly, most justice-involved individuals do not have prior experience in other services (8%) before entering self-

employment; they are only 1 percentage point less likely to have within-sector experience than non-justice-involved individuals (Figure 4c). Rather, justice-involved individuals who start businesses in the other services sector have disproportionate experience in waste management, manufacturing, and accommodation and food services.

4.4 Modeling self-employment as a function of having a criminal record

To understand how criminal histories and demographic characteristics interact to explain high rates of self-employment among people with criminal histories, we model employment and income as a function of criminal justice involvement. Formally, we estimate models following the main specification below:

$$Y_{i,cz}^{2018} = \alpha + \beta \mathbb{1}(\text{CJ record})_i + \gamma_{sex} + \gamma_{race} + \gamma_{sex \times race} + \gamma_{age} + \gamma_{cz} + \gamma_{educ} + \epsilon_i, \quad (1)$$

where Y is a measure of employment or income for individual i in 2018. The first outcome of interest is labor supply in the formal sector, which is measured using an indicator for whether a 1040 form is filed along with a W-2 return or Schedule C. We then consider reliance on self-employment among those that work using an indicator for whether a Schedule C is filed and whether a Schedule C is filed without total W-2 wage income of \$1,000 or more. We also consider the intensity of labor market involvement and self-employment using measures of employer-based income and self-employment earnings and business revenue. Specifically, among those formally employed, we measure total earnings (W-2 wages and Schedule C earnings and wages), W-2 wages, Schedule C earnings and wages, share of earnings coming from a Schedule C, and total business revenue.²⁴ The earnings and revenue variables are in \$1,000s and transformed using the inverse hyperbolic sine (IHS) for ease of interpretation and to deal with presence of outliers and zeros in the earnings data (Burbidge, Magee, and Robb 1988; Pence 2006). Outcome means for all variables along with means and medians of monetary outcomes in dollars are reported for individuals with and without criminal justice involvement.

The indicator for criminal justice involvement is defined as having any conviction or correctional

²⁴Self-employed individuals can receive income from either earnings or paid wages. Since business owners can vary their source of income for tax purposes, we report total received income.

spell prior to April 3, 2018; β , the parameter of interest, measures the association between having a criminal record and self-employed status or income. Indicator variables are included for gender, race, gender by race, age, commuting zone, and education level.²⁵ We present two specifications. The first includes all individuals in the sample and controls for the information above except educational attainment. The second specification includes indicators for educational attainment but restricts the sample to those who responded to the 2000 decennial census long form or the 2005–2018 American Community Survey and were 22 or older at the time of the survey, allowing us to measure educational attainment.

In Table 1 Panel A, we first look at formal labor supply in 2018 as a function of criminal justice involvement among those 18 years and older on April 3, 2018 and residing in one of the CJARS states as of 2010. Individuals with a criminal record, specifically a conviction or correctional spell, are 13 percentage points (28%) less likely to be engaged in formal economic activity compared to the non-justice involved population (Column 1). This relationship is surprisingly stable although shrinks slightly after accounting for educational attainment in Column 2 of Panel A. In Columns 3–6, we look at the likelihood of being self-employed among those formally employed in 2018, as measured by Form 1040 filing along with a Schedule C or W-2 return. Columns 3 and 4 document that individuals with a criminal record are 2 percentage points or 11% more likely to be self-employed than non-justice involved individuals. Moreover, they are 22% more likely to be reliant on self-employment, as measured by filing a Schedule C and not also having a W-2 with \$1,000 or more (Column 6). Finally, we find that this is not driven primarily by those maximizing the Earned Income Tax Credit (EITC) and their net tax refunds, as seen in Columns 7–10 which exclude those within \$1,000 of the first EITC kink (Tax Policy Center 2021).²⁶

These results are mirrored when looking at amounts of income by source in Panel B, where all dollar variables are in \$1,000s of dollars and transformed using the inverse hyperbolic sine function. Individuals with a criminal record have 29% lower total earnings (W-2 wages and Schedule C

²⁵Demographics are measured using the Census Numident. Race/ethnicity categories are mutually exclusive: White, Black, other, Asian/Pacific Islander, Hispanic, American Indian and Alaska Native, and missing race. Gender categories include missing, male, and female. A separate indicator is included for each age in years from 18 to 95, and for ages above 95 years. Commuting zone indicators correspond to the geographic location of the individual reported in the 2010 decennial census. Commuting zones that straddle multiple states are split and coded as separate indicators. Education levels include high school/associate’s degree and bachelor’s/advanced degree.

²⁶The estimates shrink slightly when excluding those around the EITC kink with notable differences by gender (Table A3); the male and female estimates reduce to 75–94% and 49–52% of the original coefficients, respectively.

earnings and wages), which predictably shrinks to 19% once accounting for educational attainment (Columns 1 and 2). In Columns 3 and 4, we see that the decrease in overall earnings is due to significantly lower W-2 earnings, with individuals receiving 25% lower employer-based wages when accounting for educational attainment. This is in part made up by higher Schedule C earnings on average. Columns 5 and 6, report a similar 5.3% and 5.5% increase in self-employment income. Ultimately, this represents earning 2% more of total earnings through self-employment for those with criminal records. Finally, since it is common to withhold self-employment income to reinvest in the company or for tax purposes and some individuals may be self-employed more as a side project, we measure the gross revenue reported by sole-proprietors on their Schedule C forms in Columns 9 and 10. Those with criminal records have businesses that are 8.6% larger in terms of total revenue, suggesting that they are more likely to be owners of substantial businesses that individuals are relying on than non-justice-involved individuals.

Several factors may explain these documented patterns. Self-employment may be a strategic response to discrimination in the formal labor market by those that have criminal records. It may also be possible that divergent preferences towards self-determination (e.g., being one’s own boss) explain the disproportionate representation of the justice-involved population in self-employment. Finally, occupational licensing restrictions may encourage justice-involved individuals into professions that are particularly compatible with self-employment. Differentiating these potential mechanisms is an important area for future research.

5 Recent interactions between policies to support self-employment in the U.S. and criminal histories

5.1 COVID-19 and the Paycheck Protection Program

In December 2019, a novel coronavirus began spreading rapidly with recorded cases in nineteen countries by the end of January 2020 (World Health Organization 2020). The World Health Organization declared the 2019 Novel Coronavirus Disease (COVID-19) a pandemic on March 11, 2020 and the United States followed suit declaring a national emergency two days later.

The Paycheck Protection Program (PPP) was passed by Congress as a part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act on March 27, 2020 to offer assistance to small

businesses facing economic hardship in the midst of COVID-19. Initially, Congress allocated \$349 billion, adding \$310 billion a month later and two more allocations of \$284 and \$7 billion in December 2020 and March 2021. The loans, administered through the Small Business Administration (SBA), could be forgiven if at least 60% of loan funds were used for payroll and businesses did not decrease their workforce size or wages. Additionally, these loans offered 1% interest rates, a two- or five-year minimum maturation period, deferred payments for six months, no collateral or personal guarantees, and no fees charged to the business. Small businesses were eligible to apply for funding, including sole proprietors, independent contractors, self-employed persons; accommodation and food service businesses (NAICS codes beginning with 72) with more than one physical location and fewer than 500 employees per location; non-profit organizations, veterans organizations, and tribal businesses with fewer than 500 employees or the industry size standard if more than 500.

In our five states, sole-proprietors received an average of \$28,650 in potentially forgivable loans, if spent on approved expenditures such as rent and payroll, and reported having 5 employees on average.²⁷

Initially, the SBA implemented PPP eligibility restrictions for those with recent criminal histories to determine character, ability to repay loans, and potential for fraud. Specifically, the original application denied businesses with an owner of at least 20% or more equity who was currently in prison, on parole, on probation, had a pending charge, or was convicted of a felony within the last five years; these were later reduced in scope. Applicants report criminal history on the application form and give permission for criminal background checks by the Federal Bureau of Investigation (FBI) to verify the application information. Notably, lying on a loan application form is a felony offense punishable by up to \$1 million in fines and 30 years in prison (18 U.S.C. 1014).

Fraud is a legitimate concern when the SBA and banks make lending decisions and there is already some evidence of fraud in the PPP program (Griffin, Kruger, and Mahajan 2021). In choosing to disqualify applicants with criminal histories, the effectiveness of criminal background checks in reducing potential fraud must be weighed against the costs of reducing the successful economic reintegration of people with criminal records. In this section, we document how many self-

²⁷Numbers are from the SBA PPP Loan Level Data provided by the U.S. Department of Treasury accessed 10/28/2020 from <https://home.treasury.gov/policy-issues/cares-act/assistance-for-small-businesses/sba-paycheck-protection-program-loan-level-data>.

employed people with criminal records were potentially disqualified by the initial SBA restrictions. We are not yet able to link CJARS records with PPP loan data. In the future, those linkages will allow a more comprehensive comparison of the benefits and costs of criminal disqualifications.

5.2 Measuring PPP disqualification rates

We identify self-employed individuals or small businesses using Schedule C filing and do not observe other non-sole proprietor businesses (e.g., partnerships or S-corporations). This omission could lead to an overestimate of the ineligibility rate for all small businesses in the U.S. However, of the PPP loans under \$150,000 granted in the five states used in this analysis, 51% were for sole-proprietors/single-member LLCs, 23% for corporations, 11% for S-corporations, 8% for independent contractors/self-employed individuals, and 2% for partnerships.²⁸ We are also unable to isolate small businesses in the analysis. Some individuals may claim self-employment income associated with businesses that are ineligible for PPP because they have more than 500 employees. Finally, while we estimate the number of businesses that would have been ineligible for PPP loans in early 2020, we note that tax filing status in any given year between 2014 and 2018 tax years is an imperfect proxy for *currently* being a small business owner.

5.3 Disqualification rates for PPP financial assistance

We estimate that more than 254,000 self-employed business owners in the five CJARS states were initially not eligible for PPP loans due to one or more observable PPP eligibility disqualifying events resulting from prior contact with their filing state’s criminal justice system (Table A4).²⁹ Figure 5 Panel A shows estimated disqualification rates across the pooled states and shows how disqualification varies by type of criminal record. Across the pooled states, 2.7 percent of Schedule C filers had a disqualifying event. In states where CJARS has the most complete procedural coverage, observed ineligibility rates were the highest; 5.1 percent and 2.8 percent were ineligible in Michigan and Texas, respectively (Table A4). The most common reason for exclusion from PPP eligibility in Michigan was having a pending criminal charge; in Texas, the most common reason

²⁸Percentages are calculated from SBA PPP Loan Level Data provided by the U.S. Department of the Treasury accessed on 10/28/2020 from <https://home.treasury.gov/policy-issues/cares-act/assistance-for-small-businesses/sba-paycheck-protection-program-loan-level-data>.

²⁹We note that this estimate is based on tax filings between 2014 and 2018 tax years and criminal justice involvement as of April 3, 2018 as discussed in Sections 3 and 5.2.

was for being on probation.

All states considered in this analysis have coverage of the criminal court system and the correctional population, but the historical and jurisdictional coverage varies; pending charges, misdemeanors, parole and probation events are not always included in the data limiting the observed disqualifying events. The states with more limited coverage exhibit observed ineligibility rates in the range of 1.4 to 1.9 percent. For example, in North Carolina, where historical criminal convictions currently can be observed only for those who were under correctional supervision, we measure an intermediate value at 1.6 percent observed ineligible (Table A4). Bushway et al. (2021) largely confirms these magnitudes using commercial administrative records, without limiting their definition of small business ownership to Schedule C filers, although they do not have the universe of businesses and are limited to measuring criminal justice contact with felony convictions. The disqualifying statuses were not mutually exclusive with roughly 30 percent of observed ineligible individuals having more than one disqualification. Thus, elimination of any single exclusion criteria would not change the overall ineligibility rate in the population substantially. However, Bushway et al. (2021) provides estimates on how significant changes to PPP restrictions reduced the number of excluded businesses.

The incidence of observable PPP eligibility disqualifying events varies by demographic group (Figure 5, Panel B). Overall, self-employed men are more likely to have a disqualification-eligible criminal history than self-employed women (3.5% versus 2.1%). This reflects the disproportionate contact men have with the criminal justice system, but also the higher rate of self-employment women have conditional on having a criminal history.

Self-employed Black men are the most likely demographic group to have a disqualification-eligible criminal history. 9.0% of self-employed Black men have a conviction or have been in corrections; more than four times the rate of self-employed White men (2.1%).³⁰ 5.3% of self-employed Hispanic men have a conviction or have been in corrections. Due to their increased criminal justice contact and their propensity to become self-employed conditional on contact, 5.6% of self-employed Black women have a disqualification-eligible criminal history. This places Black women at higher risk of ineligibility than White or Hispanic men.

³⁰In Michigan and Texas, 7.7 to 19.2 percent of Black men with reported self-employment income had an observed disqualifying event, representing over 34,000 minority business owners. See Table A5.

5.4 Implications of financial assistance barriers

Using business records from Yelp, Yelp Economic Average (2020) document that 25–57% of retail and food services, a sector hit particularly hard, and 6–10% of home and mechanic services were permanently closed. Bartik, Cullen, et al. (2020) suggest that PPP support was an important lifeline for increasing a business’s expected survival rate by an estimated 14 to 30 percentage points. Business owners with criminal histories initially could not access this support.

Extrapolating out from our findings from Michigan (Table A4), the state with the most comprehensive coverage, we estimate that nationally 1,278,260 sole-proprietors may not have had access to critical PPP funding at the start of the pandemic because of potential criminal disqualifications.³¹ This translates to 25,565 permanent business closures for sole-proprietors with a PPP disqualification, assuming the most conservative early closure rate of small businesses of 2% through March 2020 (Bartik, Bertrand, et al. 2020). Closure rates have risen as businesses have transitioned from temporary to permanent shutdowns.

These business closures are likely to have disproportionately affected owners from minority groups (Fairlie 2020) due to a lack of lending services in minority communities (Fairlie 1999; Blanchflower, Levine, and Zimmerman 2003) and higher rates of criminal histories among sole-proprietors. To the extent that closures are permanent and related to PPP ineligibility, the initial criminal restrictions may have resulted in reductions in minority representation among small business owners and removed an important source of income for those with criminal records.

6 Conclusion

An increasing number of people in the U.S. have a criminal record, especially within minority communities. These individuals face well-documented labor market discrimination. A potential alternative is self-employment and entrepreneurship. However, due to a multitude of data constraints it has previously been unknown how prevalent this form of activity is among those with criminal records. Using novel data linkages between CJARS and IRS tax records, we document the extent that justice-involved individuals engage in self-employment, finding that 28% of individuals

³¹We calculate the number of ineligible businesses as 5.1% of the total number of non-farm sole-proprietors, 25,063,932 Schedule C returns, in 2016 (Internal Revenue Service 2016d).

with any conviction or correctional spell are self-employed. Moreover, individuals with criminal records are 22% more likely to rely primarily on self-employment. Given the higher rates of self-employment, research that relies on Unemployment Insurance records (UI) or W-2 information returns to study labor market outcomes for individuals with criminal records will systematically miss an important source of income.

While we cannot determine whether labor market discrimination, employment preferences, or other labor market features like occupational licensing restrictions explain the disproportionate reliance of the justice-involved population on self-employment, the high prevalence rates (over one in four justice-involved individuals) have important policy implications. First, reentry programs may benefit from greater targeting of job skills that can be deployed through self-employment. Similarly, training returning citizens on management and organizational practices (such as tax filing requirements) may help improve the success of their entrepreneurial activity. Finally, questions about self-employment should be incorporated into risk tools that assess self-sufficiency, flight risk, and recidivism risk.

Our findings also highlight the role of institutionalized barriers in financial access, particularly with respect to the Payroll Protection Program (PPP). While the SBA’s original criminal history-based disqualifications did not impact the vast majority of small business owners, we estimate that 5% of sole-proprietors were initially ineligible for PPP support. Moreover, minority business owners were ineligible at significantly higher rates than their White counterparts. Given the role of PPP funding in improving the likelihood of remaining open (Bartik, Cullen, et al. 2020), criminal disqualifications may have jeopardized an important income source for those with criminal records and reduced minority representation among small business owners.

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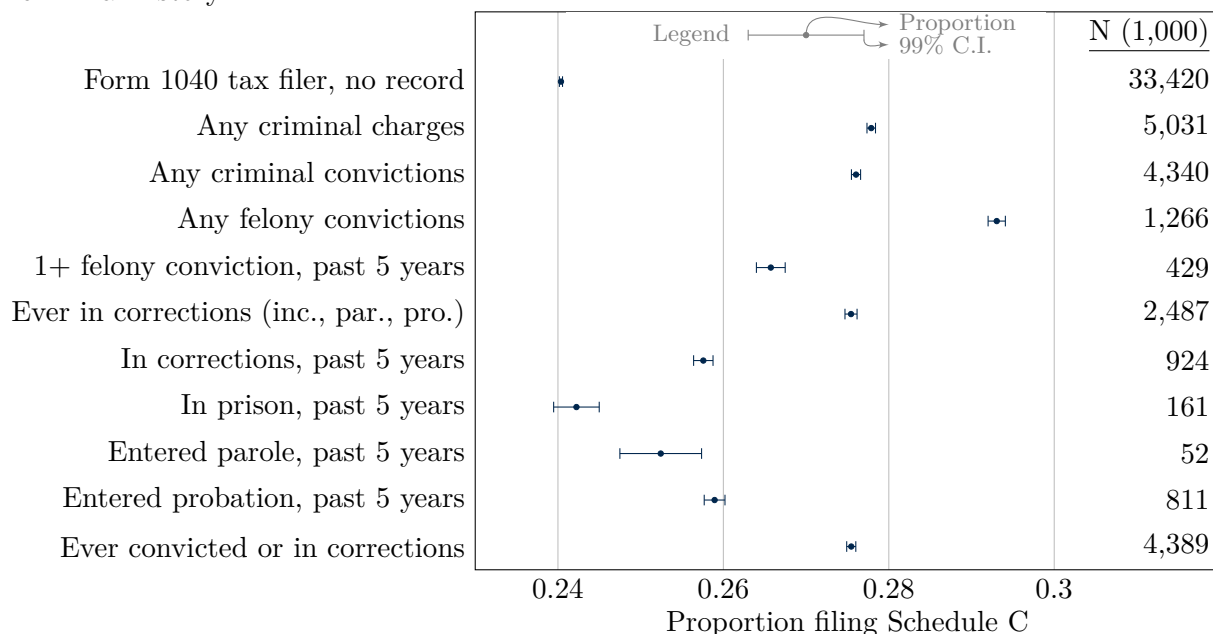
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Figures and tables

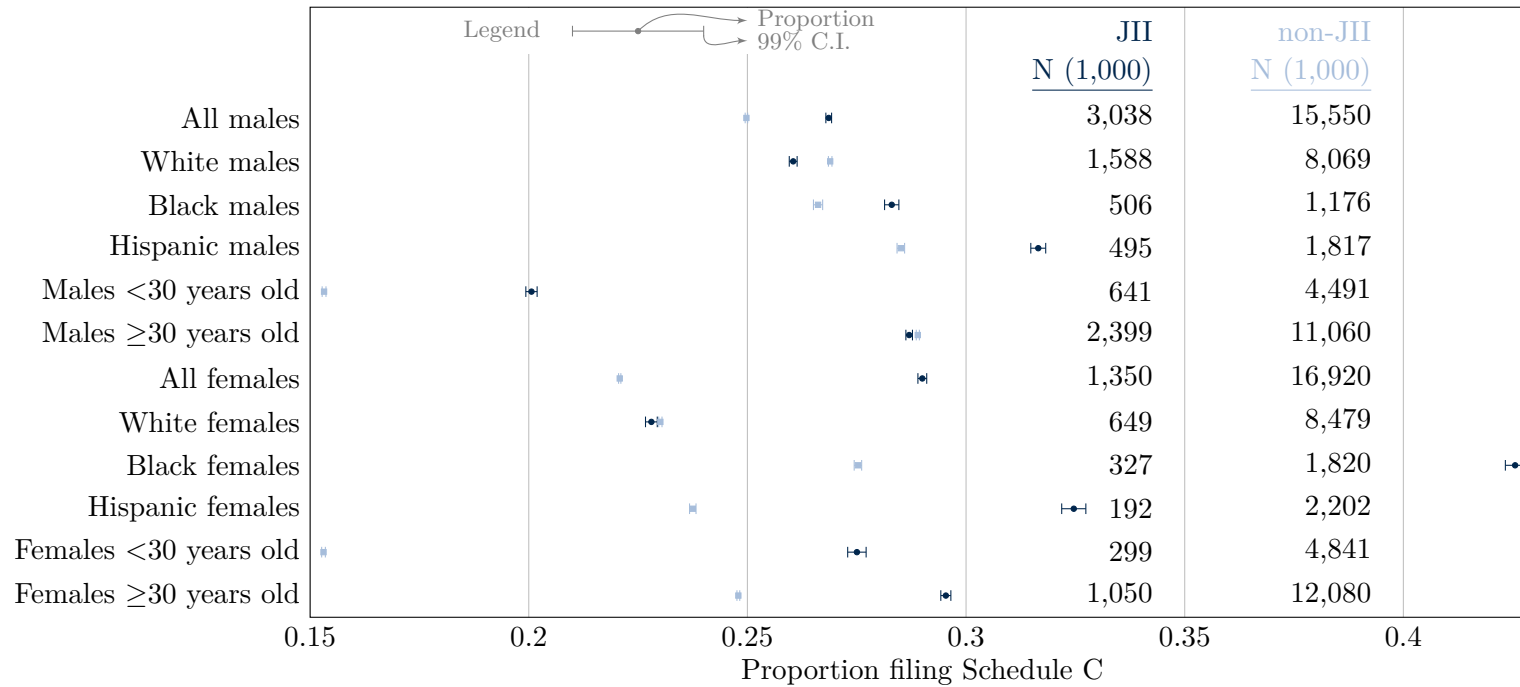
Figure 1: Proportion of people who filed a Form 1040 Schedule C in tax years 2014–2018, by type of criminal history



Source: Calculations are based on IRS 1040 tax forms between 2014 and 2018 tax years and criminal justice involvement as measured in CJARS, vintage 2020.

Notes: Plots show estimated proportions and 99% confidence intervals. Estimates and sample sizes have been rounded to preserve confidentiality. Criminal histories are measured as of April 3, 2018. The sample consists of all individuals observed filing Form 1040 at least once between 2014 and 2018 along with an observed Schedule C or W-2, indicating employment beyond filing, and not incarcerated for three or more of the five years, indicating an ability to be in the formal labor market. All results were approved for release by the U.S. Census Bureau, authorization number CBDRB-FY21-ERD002-005.

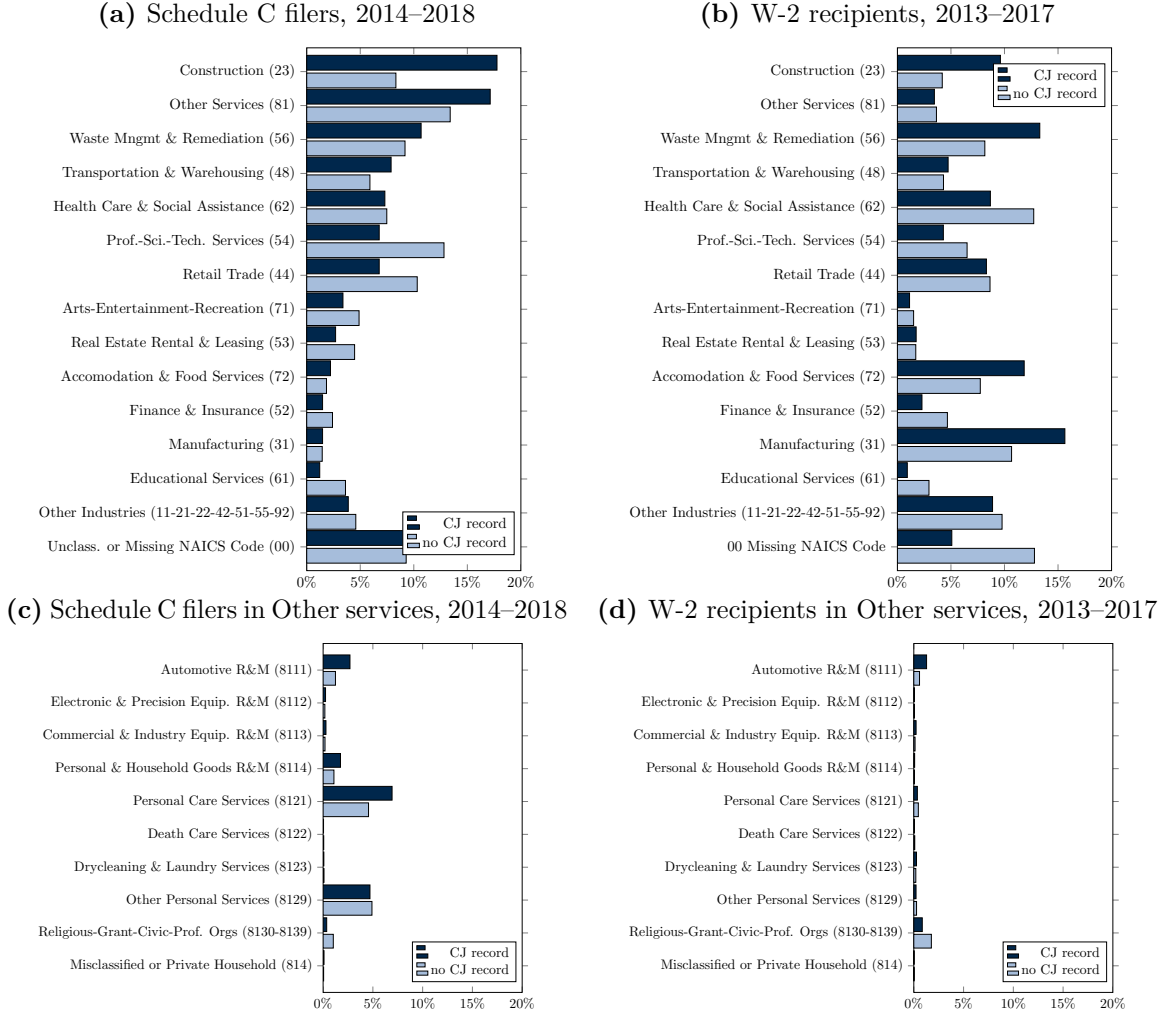
Figure 2: Proportion of people who filed a Form 1040 Schedule C in tax years 2014–2018, by demographic group and whether ever convicted or in corrections



Source: Calculations are based on IRS 1040 tax forms between 2014 and 2018 tax years and criminal justice involvement as measured in CJARS, vintage 2020.

Notes: Plots show estimated proportions and 99% confidence intervals. Estimates and sample sizes have been rounded to preserve confidentiality. Criminal histories are measured as of April 3, 2018. The sample consists of all individuals observed filing Form 1040 at least once between 2014 and 2018 along with an observed Schedule C or W-2, indicating employment beyond filing, and not incarcerated for three or more of the five years, indicating an ability to be in the formal labor market. All results were approved for release by the U.S. Census Bureau, authorization number CBDRB-FY21-ERD002-005 and CBDRB-FY22-ERD002-003.

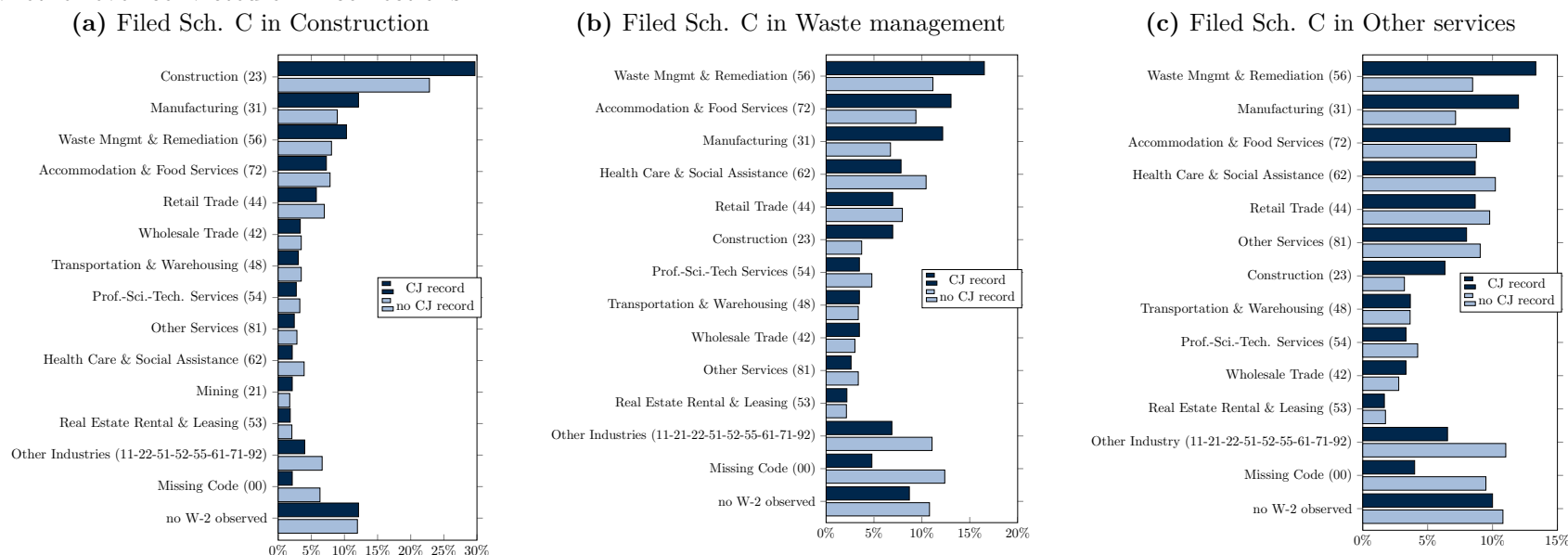
Figure 3: Industry of employment, by self-employment or employer-based employment and by whether ever convicted or in corrections



Source: Calculations are based on IRS 1040 tax forms between 2014–2018 tax years, IRS W-2 information returns 2013–2017 tax years, NAICS codes from the Business Register, residence measured in 2010, and criminal justice involvement measured in CJARS, vintage 2020.

Notes: Estimates and sample sizes have been rounded to preserve confidentiality. The sample consists of individuals in the five CJARS states, who are 18+ years of age or older by April 3, 2018. The sample in Panel A is all Schedule C filers between 2014 and 2018 tax years with a valid NAICS code and the sample in Panel B is all W-2 filers between 2013 and 2017 tax years. Panels C and D restrict to those with an other services NAICS code (81) within Schedule C and W-2 filers, respectively. Self-employed NAICS codes correspond to the most recent highest net revenue industry from Schedule C filings. Employer-based NAICS codes correspond to the cumulative highest earning industry from W-2 information returns. All results were approved for release by the U.S. Census Bureau, authorization number CBDRB-FY21-ERD002-005.

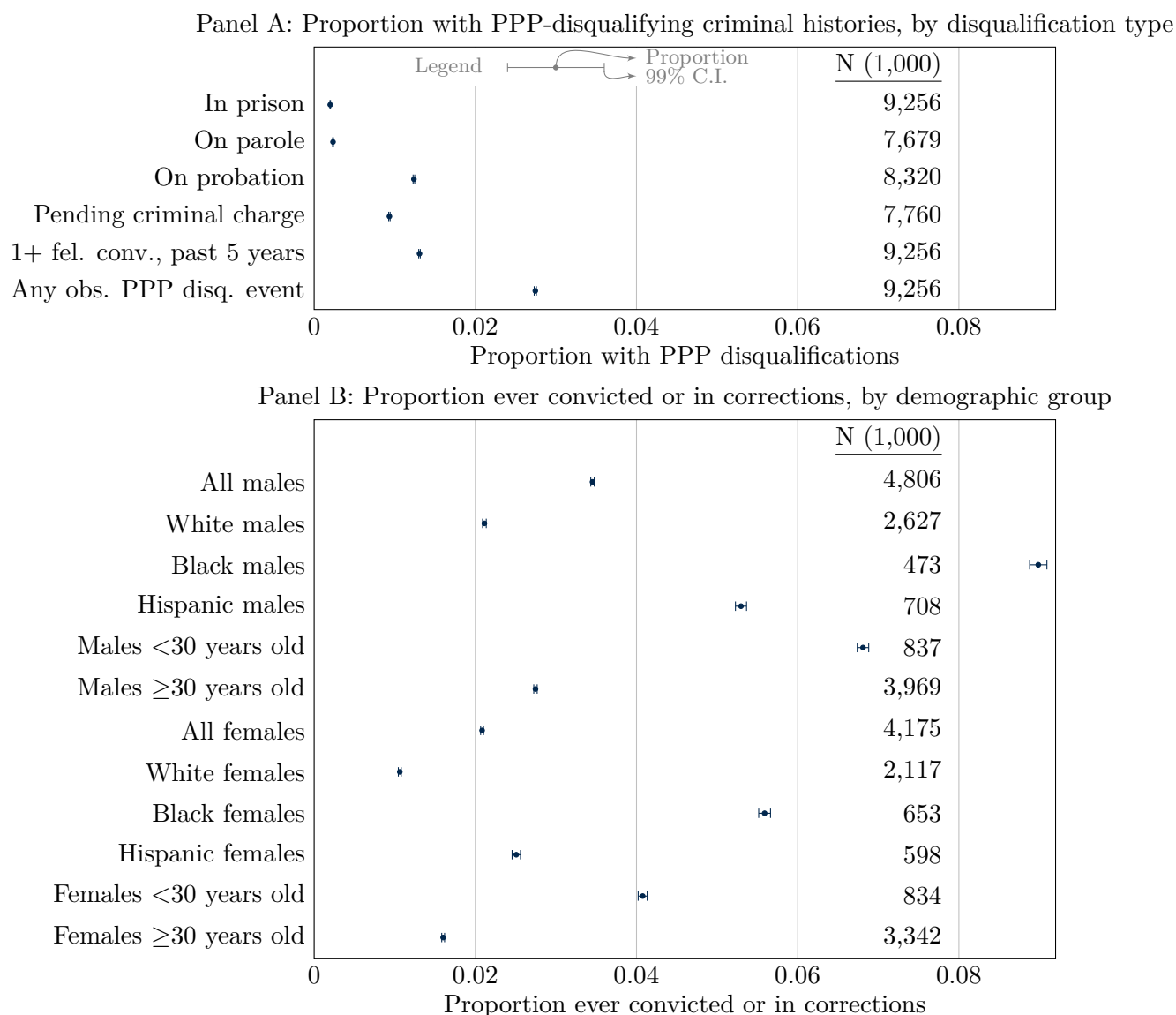
Figure 4: Industry experience from employer-based work prior to self-employment, by industry of subsequent self-employment and by whether ever convicted or in corrections



Source: Calculations are based on IRS 1040 tax forms in 2018 tax years, IRS W-2 information returns 2013-2017 tax years, NAICS codes from the Business Register, residence measured in 2010, and criminal justice involvement measured in CJARS, vintage 2020.

Notes: Estimates and sample sizes have been rounded to preserve confidentiality. The sample consists of individuals in the five CJARS states, who are 18+ years of age or older by April 3, 2018. Self-employed NAICS codes correspond to the highest net revenue industry from Schedule C filings for newly self-employed individuals in 2018 tax year; that is, individuals not observed filing a Schedule C in 2014 through 2017 tax years. Employer-based NAICS correspond to the cumulative highest earning industry from W-2 information returns in the preceding five years, 2013 to 2017 tax years. All results were approved for release by the U.S. Census Bureau, authorization number CBDRB-FY21-ERD002-005.

Figure 5: Proportion of people with PPP-disqualifying criminal histories, 2014–2018 Form 1040 Schedule C filers



Source: Calculations are based on IRS 1040 tax forms between 2014 and 2018 tax years and criminal justice involvement as measured in CJARS, vintage 2020.

Notes: Plots show estimated proportions and 99% confidence intervals. Estimates and sample sizes have been rounded to preserve confidentiality. Criminal histories are measured as of April 3, 2018. The sample consists of all individuals observed filing Form 1040 at least once between 2014 and 2018 along with an observed Schedule C or W-2, indicating employment beyond filing, and not incarcerated for three or more of the five years, indicating an ability to be in the formal labor market. All results were approved for release by the U.S. Census Bureau, authorization number CBDRB-FY21-ERD002-005.

Table 1: Modeling self-employment as a function for criminal justice involvement

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
<i>Panel A: Employment in 2018</i>							Excluding those with AGI within +/- \$1,000 of first EITC kink			
	Formally Employed in 2018 W-2 or Sch. C	Formally Employed in 2018 W-2 or Sch. C	Filed Sch. C in 2018	Filed Sch. C in 2018	Filed Only Sch. C in 2018	Filed Only Sch. C in 2018	Filed Sch. C in 2018	Filed Sch. C in 2018	Filed Only Sch. C in 2018	Filed Only Sch. C in 2018
Any conviction or correctional spell	-0.133*** (0.00910)	-0.109*** (0.00846)	0.0181*** (0.00481)	0.0211*** (0.00430)	0.0209*** (0.00164)	0.0195*** (0.00157)	0.00991** (0.00448)	0.0159*** (0.00421)	0.0163*** (0.00135)	0.0163*** (0.00145)
N	41,570,000	9,844,000	19,850,000	4,362,000	19,850,000	4,362,000	19,380,000	4,318,000	19,380,00	4,318,000
Outcome Mean for Non-CJ Individuals	0.482	0.478	0.170	0.188	0.077	0.089	0.168	0.185	0.075	0.087
Outcome Mean for CJ Individuals	0.453	0.474	0.191	0.199	0.087	0.095	0.180	0.190	0.081	0.090
% difference	27.6%	22.8%	10.6%	11.2%	27.1%	21.9%	5.9%	8.59%	21.7%	18.7%
Formally Employed (Sch. C or W-2) in 2018 Sample			Y	Y	Y	Y	Y	Y	Y	Y
Yearly Age Indicators	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Gender X Race Indicators	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
State X County Indicators	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Educational Attainment Indicators		Y		Y		Y		Y		Y
2000 long-form/ACS respondent sample		Y		Y		Y		Y		Y
<i>Panel B: Earnings in 2018</i>										
	IHS Total Earnings in 2018	Total Earnings in 2018	IHS W-2 Wages in 2018	IHS W-2 Wages in 2018	IHS Sch. C Earnings in 2018	IHS Sch. C Earnings in 2018	Share of Earnings from Sch. C in 2018	Share of Earnings from Sch. C in 2018	IHS Sch. C Revenue in 2018	IHS Sch. C Revenue in 2018
Any conviction or correctional spell	-0.290*** (0.0235)	-0.188*** (0.0217)	-0.356*** (0.0211)	-0.250*** (0.0175)	0.0532*** (0.0105)	0.0547*** (0.0101)	0.0245*** (0.00215)	0.0214*** (0.00194)	0.0828*** (0.0139)	0.0859*** (0.0139)
N	19,850,000	4,362,000	19,850,000	4,362,000	19,850,000	4,362,000	19,540,000	4,267,000	19,850,000	4,362,000
Outcome Mean for Non-CJ Individuals	4.003	4.143	3.766	3.873	0.346	0.390	0.077	0.087	0.496	0.559
Outcome Mean for Non-CJ Individuals, in \$1000s	50.38	57.53	46.22	52.54	4.162	4.992	-	-	9.303	11.04
Outcome Mean for CJ Individuals	3.939	4.024	3.647	3.713	0.3988	0.4169	0.09575	0.09988	0.5952	0.6317
Outcome Mean for CJ Individuals, in \$1000s	42.03	45.57	38.33	41.56	3.697	4.008	-	-	11.23	12.2
Outcome Median for Non-CJ Individuals	4.225	-	4.17	-	0	-	0	-	0	-
Outcome Median for Non-CJ Individuals, in \$1000s	34.16	-	32.34	-	0	-	-	-	0	-
Outcome Median for CJ Individuals	4.122	-	4.069	-	0	-	0	-	0	-
Outcome Median for CJ Individuals, in \$1000s	30.83	-	29.23	-	0	-	-	-	0	-
Formally Employed (Sch. C or W-2) in 2018 sample	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Yearly Age Indicators	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Gender X Race Indicators	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
State X County Indicators	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Educational Attainment Indicators		Y		Y		Y		Y		Y
2000 long-form/ACS respondent sample		Y		Y		Y		Y		Y

Source: Calculations are based on IRS 1040 tax forms between 2014 and 2018 tax years and criminal justice involvement as measured in CJARS, vintage 2020.

Notes: Estimates and sample sizes have been rounded to preserve confidentiality. The sample consists of individuals observed in the five states in 2010 that are 18 or older as of April 3, 2018. Formal employment is defined as individuals that file a Form 1040 with either a Schedule C or a W-2 information return filed in the 2018 tax year. Only Schedule C employment is defined as having filed a Schedule C in 2018 and not being observed with a W-2 information return of \$1,000 or more in 2018. The sample is limited to individuals that filed a 1040 and are either self-employed or employer-based in 2018 as measured by having a Schedule C or W-2 information return filed in Panel A Columns 3-10 and Panel B Columns 1-10. Panel A Columns 7-10 repeat Columns 3-6 excluding individuals with Adjusted Gross Income within \$1,000 of the first EITC kink in 2018; the threshold is \$6,780, \$10,180, and \$14,570 for households with zero, one and two or more dependents, respectively. Criminal justice involvement is measured as any felony conviction or correctional episode (probation, incarceration, or parole) as of April 3, 2018. Educational attainment is measured among 2005-2018 American Community Survey (ACS) and 2000 Decennial (long form) respondents that were 22 or older at the time of the survey (see U.S. Census Bureau (2019)). The provided person weights are used in specifications restricted to the survey sample (Columns 2, 4, 6, 8, and 10). All specifications include indicators for each age in years and commuting zone of residence as of 2010. Standard errors are clustered by commuting zone of residence in 2010. Unadjusted means and medians for those with and without any conviction or correctional spell are shown in the panels. All results were approved for release by the U.S. Census Bureau, authorization numbers CBDRB-FY21-ERD002-024 and CBDRB-FY22-ERD002-003. * p<0.10, ** p<0.05, *** p<0.01

Online appendix

Observable criminal histories in the 2020 vintage of CJARS

Each state varies in coverage over time and criminal justice involvement types. Missing parameters in Tables A1 and A4 indicate which types of criminal justice involvement are not available in the CJARS database. Below we further describe the types of records collected in each of the five states used in this analysis.

Arizona: Records from the Arizona Administrative Office of the Courts and the Arizona Department of Corrections.

- Misdemeanor and Felony Court Records 1997–2018 (most counties)
- Prison 1983–2017 (most counties)

Michigan: Records from the Michigan State Court Administrative Office and the Michigan Department of Corrections.

- Local Ordinance, Misdemeanor, and Felony Court Records 1983–2018 (statewide starting in 1997)
- Prison 1981–2018 (statewide)
- Parole 1981–2018 (statewide)
- Probation 1981–2018 (statewide)

North Carolina: Records from the North Carolina Department of Public Safety in a statewide repository.

- Misdemeanor and Felony Court Records (convictions only) 1994–2019

- Prison 1972–2018 (statewide)
- Parole 1996–2018 (statewide)
- Probation 1986–2018 (statewide)

Texas: Records from County Clerks, District Clerks, Sheriff’s Offices, and the Texas Department of Corrections.

- Misdemeanor and Felony Court Records 1980–2018 (various counties)
- Prison 1978–2018 (statewide)
- Parole 1978–2018 (statewide)
- Probation 2000–2018 (statewide)

Wisconsin: Records from the Wisconsin Court System and the Wisconsin Department of Corrections.

- Misdemeanor and Felony Court Records 2000–2018 (statewide)
- Probation 1990–2018 (statewide)
- Prison 1990–2018 (statewide)

Supplementary tables

Table A1: Proportion of people who filed a Form 1040 Schedule C in tax years 2014–2018, by type of criminal history

Tax filing state	Form 1040 tax filer no record (1)	Ever have criminal charged (2)	Ever have criminal conviction (3)	Ever have felony conviction (4)	1+ felony conviction past 5 yrs (5)	Ever in corrections (inc.,par.,pro.) (6)	In corrections past 5 yrs (7)	In prison past 5 yrs (8)	Entered parole past 5 yrs (9)	Entered probation past 5 yrs (10)	Ever convicted or in corrections (11)	Two-sided P-value testing equality for Columns 1 & 2 (12)
Arizona	0.228 (0.0002) [3,820,000]	0.234 (0.0007) [389,000]	0.231 (0.0008) [279,000]	0.243 (0.0014) [90,500]	0.207 (0.0024) [29,000]	0.226 (0.0021) [39,000]	0.194 (0.0031) [16,500]	0.194 (0.0031) [16,500]	—	—	0.230 (0.0008) [282,000]	0.0
Michigan	0.205 (0.0002) [4,592,000]	0.263 (0.0003) [1,920,000]	0.260 (0.0003) [1,582,000]	0.280 (0.0008) [284,000]	0.267 (0.0014) [101,000]	0.250 (0.0005) [779,000]	0.236 (0.0008) [269,000]	0.240 (0.0038) [12,500]	0.224 (0.0055) [5,800]	0.235 (0.0008) [262,000]	0.261 (0.0003) [1,600,000]	0.0
North Carolina	0.231 (0.0002) [6,015,000]	0.265 (0.0007) [407,000]	0.265 (0.0007) [407,000]	0.282 (0.0011) [174,000]	0.256 (0.0018) [60,500]	0.267 (0.0007) [378,000]	0.248 (0.0013) [113,000]	0.226 (0.0023) [34,000]	0.217 (0.0031) [18,000]	0.251 (0.0014) [93,500]	0.265 (0.0007) [408,000]	0.0
Texas	0.274 (0.0001) [15,560,000]	0.328 (0.0003) [1,916,000]	0.325 (0.0004) [1,691,000]	0.337 (0.0006) [593,000]	0.308 (0.0011) [193,000]	0.319 (0.0004) [1,089,000]	0.294 (0.0007) [452,000]	0.281 (0.0016) [83,500]	0.280 (0.0027) [27,500]	0.293 (0.0007) [392,000]	0.325 (0.0004) [1,697,000]	0.0
Wisconsin	0.167 (0.0002) [3,438,000]	0.166 (0.0006) [398,000]	0.166 (0.0006) [379,000]	0.169 (0.0011) [124,000]	0.140 (0.0016) [45,000]	0.160 (0.0008) [203,000]	0.142 (0.0013) [74,000]	0.110 (0.0026) [14,500]	—	0.142 (0.0014) [63,500]	0.166 (0.0006) [403,000]	0.5
Combined states	0.240 (0.0001) [33,420,000]	0.278 (0.0002) [5,031,000]	0.276 (0.0002) [4,340,000]	0.293 (0.0004) [1,266,000]	0.266 (0.0007) [429,000]	0.275 (0.0003) [2,487,000]	0.258 (0.0005) [924,000]	0.242 (0.0011) [161,000]	0.252 (0.0019) [51,500]	0.259 (0.0005) [811,000]	0.275 (0.0002) [4,389,000]	0.0

Source: Calculations are based on IRS 1040 tax forms between 2014 and 2018 tax years and criminal justice involvement as measured in CJARS, vintage 2020.

Notes: Standard errors are shown in parentheses; sample sizes in brackets. Estimates and sample sizes have been rounded to preserve confidentiality. Cells marked with “—” are not computable due to CJARS data limitations. Criminal histories are measured as of April 3, 2018. The sample consists of all individuals observed filing Form 1040 at least once between 2014 and 2018 along with an observed Schedule C or W-2, indicating employment beyond filing, and not incarcerated for three or more of the five years, indicating an ability to be in the formal labor market. All results were approved for release by the U.S. Census Bureau, authorization number CBDRB-FY21-ERD002-005.

Table A2: Proportion of people who filed a Form 1040 Schedule C in tax years 2014-2018, by demographic group and whether ever convicted or in corrections

Tax filing state	Male						Female					
	All (1)	White (2)	Black (3)	Hispanic (4)	Age <30 (5)	Age ≥30 (6)	All (7)	White (8)	Black (9)	Hispanic (10)	Age <30 (11)	Age ≥30 (12)
Arizona, CJ record	0.219 (0.0009) [194,000]	0.236 (0.0015) [80,500]	0.228 (0.0035) [14,500]	0.224 (0.0017) [58,000]	0.155 (0.0015) [55,000]	0.245 (0.0012) [139,000]	0.250 (0.0015) [88,000]	0.237 (0.0022) [38,000]	0.366 (0.0057) [7,100]	0.284 (0.0029) [25,000]	0.209 (0.0027) [23,500]	0.271 (0.0018) [64,500]
Arizona, no CJ record	0.238 (0.0003) [1,876,000]	0.272 (0.0004) [1,019,000]	0.235 (0.0016) [74,500]	0.218 (0.0008) [280,000]	0.138 (0.0005) [515,000]	0.277 (0.0004) [1,361,000]	0.211 (0.0003) [1,912,000]	0.240 (0.0004) [1,001,000]	0.237 (0.0015) [84,500]	0.189 (0.0007) [325,000]	0.135 (0.0005) [533,000]	0.240 (0.0004) [1,378,000]
Michigan, CJ record	0.250 (0.0004) [1,060,000]	0.250 (0.0005) [721,000]	0.302 (0.0012) [149,000]	0.211 (0.0025) [27,000]	0.186 (0.0008) [215,000]	0.267 (0.0005) [846,000]	0.280 (0.0006) [539,000]	0.219 (0.0007) [310,000]	0.457 (0.0013) [138,000]	0.231 (0.0033) [16,000]	0.275 (0.0013) [120,000]	0.282 (0.0007) [419,000]
Michigan, no CJ record	0.212 (0.0003) [2,033,000]	0.234 (0.0004) [1,262,000]	0.254 (0.0013) [118,000]	0.180 (0.0021) [35,000]	0.128 (0.0004) [629,000]	0.249 (0.0004) [1,405,000]	0.197 (0.0003) [2,475,000]	0.205 (0.0003) [1,574,000]	0.300 (0.0010) [232,000]	0.173 (0.0017) [47,500]	0.137 (0.0004) [714,000]	0.221 (0.0003) [1,762,000]
North Carolina, CJ record	0.250 (0.0008) [290,000]	0.277 (0.0012) [132,000]	0.226 (0.0012) [113,000]	0.311 (0.0054) [7,400]	0.181 (0.0016) [58,000]	0.267 (0.0009) [232,000]	0.301 (0.0013) [118,000]	0.253 (0.0020) [49,500]	0.346 (0.0021) [53,500]	0.342 (0.0109) [1,900]	0.305 (0.0031) [22,000]	0.304 (0.0015) [95,500]
North Carolina, no CJ record	0.239 (0.0003) [2,854,000]	0.267 (0.0003) [1,618,000]	0.236 (0.0007) [369,000]	0.261 (0.0013) [113,000]	0.141 (0.0004) [793,000]	0.277 (0.0003) [2,062,000]	0.214 (0.0002) [3,070,000]	0.230 (0.0003) [1,649,000]	0.232 (0.0006) [565,000]	0.237 (0.0013) [112,000]	0.146 (0.0004) [852,000]	0.241 (0.0003) [2,218,000]
Texas, CJ record	0.322 (0.0004) [1,205,000]	0.312 (0.0007) [455,000]	0.324 (0.0010) [199,000]	0.344 (0.0008) [390,000]	0.250 (0.0009) [256,000]	0.341 (0.0005) [949,000]	0.334 (0.0007) [491,000]	0.270 (0.0011) [178,000]	0.446 (0.0015) [111,000]	0.347 (0.0013) [144,000]	0.309 (0.0014) [110,000]	0.342 (0.0008) [380,000]
Texas, no CJ record	0.284 (0.0002) [7,139,000]	0.304 (0.0003) [3,070,000]	0.303 (0.0006) [565,000]	0.309 (0.0004) [1,348,000]	0.183 (0.0003) [2,100,000]	0.326 (0.0002) [5,038,000]	0.249 (0.0002) [7,701,000]	0.263 (0.0003) [3,072,000]	0.308 (0.0005) [854,000]	0.252 (0.0003) [1,670,000]	0.178 (0.0003) [2,262,000]	0.279 (0.0002) [5,439,000]
Wisconsin, CJ record	0.166 (0.0007) [289,000]	0.181 (0.0009) [199,000]	0.161 (0.0021) [30,500]	0.138 (0.0030) [13,000]	0.097 (0.0012) [56,500]	0.182 (0.0008) [233,000]	0.167 (0.0011) [114,000]	0.143 (0.0013) [73,500]	0.320 (0.0035) [17,500]	0.160 (0.0053) [4,700]	0.152 (0.0024) [23,000]	0.171 (0.0013) [90,500]
Wisconsin, no CJ record	0.181 (0.0003) [1,648,000]	0.212 (0.0004) [1,100,000]	0.172 (0.0017) [49,500]	0.135 (0.0017) [41,500]	0.088 (0.0004) [454,000]	0.216 (0.0004) [1,193,000]	0.153 (0.0003) [1,762,000]	0.171 (0.0003) [1,183,000]	0.210 (0.0014) [83,500]	0.126 (0.0015) [47,500]	0.094 (0.0004) [480,000]	0.175 (0.0003) [1,282,000]
Combined states, CJ record	0.269 (0.0003) [3,038,000]	0.260 (0.0003) [1,587,500]	0.283 (0.0006) [506,000]	0.317 (0.0007) [495,400]	0.201 (0.0005) [640,500]	0.287 (0.0003) [2,399,000]	0.290 (0.0004) [1,350,000]	0.228 (0.0005) [649,000]	0.426 (0.0009) [327,100]	0.325 (0.0011) [191,600]	0.275 (0.0008) [298,500]	0.295 (0.0004) [1,049,500]
Combined states, no CJ record	0.250 (0.0001) [15,550,000]	0.269 (0.0002) [8,069,000]	0.266 (0.0004) [1,176,000]	0.285 (0.0003) [1,817,000]	0.153 (0.0002) [4,491,000]	0.289 (0.0001) [11,060,000]	0.221 (0.0001) [16,920,000]	0.230 (0.0001) [8,479,000]	0.275 (0.0003) [1,820,000]	0.238 (0.0003) [2,202,000]	0.153 (0.0002) [4,841,000]	0.248 (0.0001) [12,080,000]

Source: Calculations are based on IRS 1040 tax forms between 2014 and 2018 tax years and criminal justice involvement as measured in CJARS, vintage 2020.

Notes: Standard errors are shown in parentheses; sample sizes in brackets. Estimates and sample sizes have been rounded to preserve confidentiality. Criminal histories are measured as of April 3, 2018. The sample consists of all individuals observed filing Form 1040 at least once between 2014 and 2018 along with an observed Schedule C or W-2, indicating employment beyond filing, and not incarcerated for three or more of the five years, indicating an ability to be in the formal labor market. All differences between disqualified and non-disqualified groups by state and demographic group are statistically significant at the 1% level, *except* estimates for Hispanic males in Wisconsin, Black males in Arizona, and White females in Arizona. 78% of the differences report those with criminal justice records filed a Schedule C at a higher rate than the non-involved individuals; those that do not include men overall in Arizona and Wisconsin, which is driven by White and Black men and men over 30 in Arizona and Wisconsin, as well as White women in Arizona and Wisconsin and women over 30 in Wisconsin. All results were approved for release by the U.S. Census Bureau, authorization number CBDRB-FY21-ERD002-005.

Table A3: Modeling self-employment as a function for criminal justice involvement, by gender

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
<i>Panel A: Employment in 2018 among men</i>							Excluding those with AGI within +/- \$1,000 of first EITC kink			
	Formally Employed in 2018 W-2 or Sch. C	Formally Employed in 2018 W-2 or Sch. C	Filed Sch. C in 2018	Filed Sch. C in 2018	Filed Only Sch. C in 2018	Filed Only Sch. C in 2018	Filed Sch. C in 2018	Filed Sch. C in 2018	Filed Only Sch. C in 2018	Filed Only Sch. C in 2018
Any conviction or correctional spell	-0.151*** (0.00818)	-0.124*** (0.00783)	0.0131*** (0.00389)	0.0192*** (0.00389)	0.0241*** (0.00133)	0.0231*** (0.00166)	0.00978** (0.00386)	0.0171*** (0.00392)	0.0218*** (0.00133)	0.0215*** (0.00169)
N	20,160,000	4,653,000	9,872,000	2,185,000	9,872,000	2,185,000	9,700,000	2,172,000	9,700,000	2,172,000
Outcome Mean for Non-CJ Men	0.5042	0.511	0.188	0.21	0.085	0.099	0.188	0.209	0.085	0.098
Outcome Mean for CJ Men	0.437	0.466	0.192	0.205	0.093	0.103	0.187	0.201	0.09	0.1
% difference	29.9%	24.3%	7.0%	9.1%	28.4%	23.3%	5.2%	8.18%	25.6%	21.9%
<i>Panel B: Employment in 2018 among women</i>							Excluding those with AGI within +/- \$1,000 of first EITC kink			
	Formally Employed in 2018 W-2 or Sch. C	Formally Employed in 2018 W-2 or Sch. C	Filed Sch. C in 2018	Filed Sch. C in 2018	Filed Only Sch. C in 2018	Filed Only Sch. C in 2018	Filed Sch. C in 2018	Filed Sch. C in 2018	Filed Only Sch. C in 2018	Filed Only Sch. C in 2018
Any conviction or correctional spell	-0.0970*** (0.00894)	-0.0801*** (0.00808)	0.0313*** (0.00669)	0.0287*** (0.00612)	0.0176*** (0.00278)	0.0141*** (0.00267)	0.0140** (0.00598)	0.0165** (0.00591)	0.00822*** (0.00196)	0.00692*** (0.00225)
N	21,420,000	5,187,000	9,979,000	2,177,000	9,979,000	2,177,000	9,676,000	2,146,000	9,676,000	2,146,000
Outcome Mean for Non-CJ Women	0.464	0.453	0.155	0.169	0.07	0.08	0.158	0.164	0.067	0.076
Outcome Mean for Non-CJ Women	0.492	0.494	0.189	0.187	0.076	0.078	0.1638	0.166	0.062	0.066
% difference	20.9%	17.7%	20.2%	17.0%	25.1%	17.6%	8.9%	10.1%	12.3%	9.1%
Yearly Age Indicators	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Gender X Race Indicators	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
State X County Indicators	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Educational Attainment Indicators		Y		Y		Y		Y		Y
2000 long-form/ACS respondent		Y		Y		Y		Y		Y

Source: Calculations are based on IRS 1040 tax forms between 2014 and 2018 tax years and criminal justice involvement as measured in CJARS, vintage 2020.

Notes: Estimates and sample sizes have been rounded to preserve confidentiality. The sample consists of individuals observed in the five states in 2010 that are 18 or older as of April 3, 2018. The sample is limited to individuals that filed a 1040 and are either self-employed or employer-based in 2018 as measured by having a Schedule C or W-2 information return filed. Criminal justice involvement is measured as any felony conviction or correctional episode (probation, incarceration, or parole) as of April 3, 2018. Educational attainment is measured among 2005-2018 American Community Survey (ACS) and 2000 Decennial (long form) respondents that were 22 or older at the time of the survey (see U.S. Census Bureau (2019)). The provided person weights are used in specifications restricted to the survey sample. All specifications include indicators for age and commuting zone of residence as of 2010. Standard errors are clustered by commuting zone of residence in 2010. Individuals with Adjusted Gross Income within \$1,000 of the first EITC kink in 2018 are excluded from Columns 7-10 in Panel A; the threshold is \$6,780, \$10,180, and \$14,570 for households with zero, one and two or more dependents, respectively. All results were approved for release by the U.S. Census Bureau, authorization numbers CBDRB-FY21-ERD002-024 and CBDRB-FY22-ERD002-003. * p<0.10, ** p<0.05, *** p<0.01

Table A4: Proportion of Form 1040 Schedule C filers with PPP disqualifications, by disqualification type

Tax filing state	In prison (1)	On parole (2)	On probation (3)	Pending criminal charge (4)	1+ felony conviction in prior 5 years (5)	Any observable PPP disqualifying event (6)	Total size of observable PPP disqualified population (7)
Arizona	0.0010 (0.00003) [936,000]	—	—	0.0087 (0.00010) [936,000]	0.0067 (0.00008) [936,000]	0.0144 (0.00012) [936,000]	13,500
Michigan	0.0024 (0.00004) [1,361,000]	0.0004 (0.00002) [1,361,000]	0.0143 (0.00010) [1,361,000]	0.0309 (0.00015) [1,361,000]	0.0209 (0.00012) [1,361,000]	0.0514 (0.00019) [1,361,000]	70,000
North Carolina	0.0012 (0.00003) [1,496,000]	0.0005 (0.00002) [1,496,000]	0.0080 (0.00007) [1,496,000]	—	0.0107 (0.00008) [1,496,000]	0.0157 (0.00010) [1,496,000]	23,500
Texas	0.0024 (0.00002) [4,823,000]	0.0034 (0.00003) [4,823,000]	0.0140 (0.00005) [4,823,000]	0.0037 (0.00003) [4,823,000]	0.0132 (0.00005) [4,823,000]	0.0280 (0.00008) [4,823,000]	135,000
Wisconsin	0.0011 (0.00004) [641,000]	—	0.0059 (0.00010) [641,000]	0.0067 (0.00010) [641,000]	0.0101 (0.00013) [641,000]	0.0187 (0.00017) [641,000]	12,000
Combined states	0.0020 (0.00001) [9,256,000]	0.0023 (0.00002) [7,679,000]	0.0124 (0.00004) [8,320,000]	0.0093 (0.00003) [7,760,000]	0.0131 (0.00004) [9,256,000]	0.0274 (0.00005) [9,256,000]	254,000

Source: Calculations are based on IRS 1040 tax forms between 2014 and 2018 tax years and criminal justice involvement as measured in CJARS, vintage 2020.

Notes: Standard errors are shown in parentheses; sample sizes in brackets. Estimates have been rounded to preserve confidentiality. Cells marked with “—” are not computable due to CJARS data limitations. The sample consists of all Schedule C filers in the respective states between 2014 and 2018 tax years. PPP eligibility disqualifying status is measured as of April 3, 2018. All results were approved for release by the U.S. Census Bureau, authorization number CBDRB-FY21-ERD002-005.

Table A5: Proportion of Form 1040 Schedule C filers ever convicted or in corrections, by demographic group

Tax filing state	Male						Female					
	All (1)	White (2)	Black (3)	Hispanic (4)	Age <30 (5)	Age ≥30 (6)	All (7)	White (8)	Black (9)	Hispanic (10)	Age <30 (11)	Age ≥30 (12)
Arizona	0.0179 (0.00019) [491,000]	0.0108 (0.00019) [296,000]	0.0429 (0.00140) [21,000]	0.0389 (0.00071) [74,500]	0.0363 (0.00066) [80,000]	0.0143 (0.00019) [412,000]	0.0110 (0.00016) [426,000]	0.0068 (0.00017) [249,000]	0.0267 (0.00107) [22,500]	0.0232 (0.00057) [69,000]	0.0182 (0.00048) [77,000]	0.0095 (0.00016) [348,000]
Michigan	0.0545 (0.00027) [707,000]	0.0322 (0.00025) [481,000]	0.1923 (0.00141) [78,000]	0.0800 (0.00243) [12,500]	0.1179 (0.00092) [123,000]	0.0420 (0.00026) [584,000]	0.0478 (0.00026) [649,000]	0.0157 (0.00020) [394,000]	0.1434 (0.00095) [136,000]	0.0583 (0.00214) [12,000]	0.1045 (0.00084) [134,000]	0.0330 (0.00025) [515,000]
North Carolina	0.0205 (0.00016) [757,000]	0.0141 (0.00017) [469,000]	0.0496 (0.00065) [113,000]	0.0172 (0.00073) [32,000]	0.0426 (0.00058) [122,000]	0.0165 (0.00016) [635,000]	0.0115 (0.00013) [694,000]	0.0087 (0.00015) [393,000]	0.0213 (0.00037) [150,000]	0.0056 (0.00045) [27,000]	0.0206 (0.00039) [131,000]	0.0094 (0.00013) [563,000]
Texas	0.0380 (0.00012) [2,503,000]	0.0230 (0.00014) [1,110,000]	0.0769 (0.00054) [247,000]	0.0558 (0.00030) [582,000]	0.0697 (0.00037) [466,000]	0.0307 (0.00012) [2,036,000]	0.0186 (0.00009) [2,118,000]	0.0115 (0.00011) [868,000]	0.0358 (0.00033) [321,000]	0.0248 (0.00022) [483,000]	0.0327 (0.00027) [443,000]	0.0149 (0.00009) [1,674,000]
Wisconsin	0.0236 (0.00026) [347,000]	0.0175 (0.00025) [269,000]	0.1185 (0.00278) [13,500]	0.0473 (0.00247) [7,400]	0.0505 (0.00103) [45,500]	0.0195 (0.00025) [302,000]	0.0132 (0.00021) [288,000]	0.0066 (0.00018) [213,000]	0.0652 (0.00163) [23,000]	0.0299 (0.00208) [6,700]	0.0309 (0.00079) [48,500]	0.0096 (0.00020) [240,000]
Combined states	0.0345 (0.00008) [4,806,000]	0.0211 (0.00009) [2,627,000]	0.0899 (0.00042) [473,000]	0.0530 (0.00027) [708,000]	0.0681 (0.00028) [837,000]	0.0275 (0.00008) [3,969,000]	0.0208 (0.00007) [4,175,000]	0.0106 (0.00007) [2,117,000]	0.0559 (0.00028) [653,000]	0.0251 (0.00020) [598,000]	0.0408 (0.00022) [834,000]	0.0160 (0.00007) [3,342,000]

Source: Calculations are based on IRS 1040 tax forms between 2014 and 2018 tax years and criminal justice involvement as measured in CJARS, vintage 2020.

Notes: Standard errors are shown in parentheses; sample sizes in brackets. Estimates have been rounded to preserve confidentiality. The sample consists of all Schedule C filers in the respective states between 2014 and 2018 tax years. PPP eligibility disqualifying status is measured as of April 3, 2018. All results were approved for release by the U.S. Census Bureau, authorization number CBDRB-FY21-ERD002-005.