

UNDERSTANDING INCOME AND ASSET CALCULATIONS

FOR (LIHTC) LOW INCOME HOUSING TAX CREDITS



INCOME

- **Defining & Verifying Income - (IRS Regulation 1.42-5[b][2])**
- HUD Definition of Income: Income is the “gross income (monetary or not) which is anticipated to be received on a ‘regular, recurring basis’ for the 12 month period following the effective date of the certification.”

TYPES OF INCOME SOURCES

- Employment
- Alimony/child support
- Welfare – AFDC/TANF
- Pensions
- Unemployment
- Social Security/SSI
- Annuities
- Investment Income
- Earned Interest
- Disability payments
- Regular cash gifts or payments on behalf of household member
- Rental income from owned Real Estate
- any other income sources

EMPLOYMENT INCOME

When verifying employment income, the following information should be obtained:

- Employment Date/ Status (e.g. full time, part time, seasonal, etc.)
- Pay Rate
- Hourly wages by 2,080 hours, weekly wages by 52, bi-weekly by 26, semi-monthly amounts by 24, monthly amounts by 12
- Year to date amount
- Overtime, Shift Differentials
- Bonuses, Commissions, Tips

TYPES OF THIRD-PARTY VERIFICATION

1. Written Third Party from the source, which includes:

- Written verification on verification form
- Pay Stubs (4 to 6 most recent)
- Payroll summary
- Employer hire letters
- SSA Benefit Letter for pensions and SS
- Bank Statements to verify the value of assets
- Child Support Payments Stubs, agency print-outs, etc.

2. Oral third-party verification may be used only if it is not possible to obtain written third-party verification and the file documents attempts to obtain written verification.

Hand delivery of documents is not prohibited if the document is clearly authentic (may require oral follow up with source to determine validity).

Document should be current and complete (e.g., 4-6 consecutive pay stubs) and an unaltered original. Photocopied documents generally should not be relied on.

A tenant's notarized statement or signed affidavit regarding income is acceptable only if the information cannot be verified by another acceptable method. In these cases, the following is required:

- Written note to the file explaining why third-party verification is not possible;

or

- A copy of the date-stamped original request that was sent to the third party;

Written notes or documentation indicating follow up efforts to reach the third party to obtain verification; and

A written note to the file indicating that the request has been outstanding without a response from the third party.

Note – management is no longer required to wait 14 days after requesting third party verification, since other original documents are considered to be third party verification.

Owners may witness signatures in lieu of a notarized statement or affidavit.



TEMPORARY EMPLOYMENT INCOME

HUD Notice H 09-16, issued October 2, 2009, defines temporary as “employment income lasting no longer than 180 days and not culminating in permanent employment. Employer verification of both the employment dates and income amount must be maintained in the tenants file.”

Note: HUD has provided no clarification that this provision applies to anyone other than census workers, although HUD has indicated that this definition applies to any temporary income (HUD-VASH) Operating Requirements as published in the Federal on May 6 and 19, 2008).

MILITARY VERIFICATION

- Be sure to use a military verification form that shows all allowances (all must be counted except “hostile fire pay”, and for LIHTC purposes only, the Basic Allowance for Housing in some areas).
- The four to six most recent Leave & Earning Statements (“LES”) is the best method for verifying (Military personnel may obtain their LES online).
- If using the LES, be aware of Basic Allowance for Housing Zip Code (BAH ZIP”) and Clothing Allowance.
 - <http://militarypay.defense.gov/pay/> is a good website for obtaining allowances.
- When verifying the income of National Guard and Reserve, remember the two-week annual active duty for training (“ACDTRA”) pay.
- All income should be verified no more than 120 days prior to the effective date of the TIC (90-days for Rural Development).

PENSIONS & SOCIAL SECURITY

- Any pension funds paid to a former spouse by court order are excluded from income of person paying but counted for the person receiving.
- Use gross income, not net (do not use bank statements to verify direct deposit);
- Increase in Pensions and Social Security occur once each year. Award letters may be used, but if more than 120 days old, an update should be obtained.
- Social Security increases will be announced each October. When publicly announced, the change should be considered in the calculation of income.
- Increases will apply to both Social Security, VA Pension, Railroad Retirement and Civil Service Pensions.

PENSIONS & SOCIAL SECURITY CONT'D.

- To request a proof of income letter from SSA website, have the applicant/resident go to www.socialsecurity.gov/myaccount (this should not be done from your office.)
- The fact sheet, How to Create an Online Account (Publication #05-10540) provides step by step instructions on how to get a benefit verification letter.
- To request a Proof of Income Letter from SSA's toll-free number, call 1-800-772-1213.
- This information is free, and the tenant should receive the letter in the mail within ten days.
- E.g., Social Security of \$600/ month in 2017;
 - Increase of 2% announced in October 2017;
 - Tenant moving in November 1;
 - Use \$600 for November and December (\$1200)
 - Apply 2% increase for January – October 2018 ($\$612 \times 10 = \$6,120$)
 - Annual income is $\$1200 + \$6120 = \$7320$.

SELF-EMPLOYMENT INCOME

1. Obtain “Self-employment Affidavit”

- a. States how much gross and net business income the resident expects to make over the next 12 months.

2. Obtain documentation to support the Affidavit:

- a. Federal tax return with supporting schedules (preferred)

Schedule C for most businesses

Schedule E for rent property, partnerships, and “S” Corporations

Schedule F for Farm Properties

Note on tax returns:

Obtain transcript from the IRS ~ 1-800-908-9946; transcript will be sent to tenant at no charge within 10 days and may also be ordered on-line. (Self-prepared returns are not recommended.) IRS Form 4506-T may also be used but receiving the return could take longer.

If tax return is not available, other acceptable documents include

- Audited or Unaudited financial statements
- Accountant/bookkeeper statements
- Other reasonable methods of verification

Note: *While it is an acceptable form of verification, a notarized statement or affidavit signed by the applicant should only be used when no other form of verification is possible. This is especially important for LIHTC properties.*



CHILD SUPPORT

- Court ordered child support must be counted even if not being received, unless the applicant/resident can show proof that it is not being received and that reasonable attempts have been made to collect it.
- When child support is received, it should be third party verified if possible. If not possible, a notarized affidavit from the resident may be accepted.
- This affidavit should also state why third-party verification is not possible.
- IRS Guidance regarding households not receiving support (when there is no court order):
- Affidavit from resident is acceptable if it states:
 - No support received;
 - Whether or not the resident intends to pursue support; and the resident will notify management if support is received.

RESIDENT ELIGIBILITY & HOUSEHOLD MEMBERSHIP

- Occupancy policies such as screening criteria are management issues.
- Income is the primary eligibility factor for tax credit residents.
- Major issues relating to income include:
 - Household Membership;
 - Age of members
 - Employment Income;
 - Asset Income;
 - Unearned income (pensions, social security, child support, recurring gifts, etc.)

HOUSEHOLD MEMBERSHIP - WHO DOESN'T COUNT?

The following persons are not counted as household members for purposes of income:

- 1. Live-in Aides, Caregivers, Attendants, etc.
 - Should be listed on TIC but should not sign TIC
 - Do not list them on the Lease
 - Screen the aides in the same manner as residents (except for rent-paying ability)
 - Verify the need for the aide (this is required). Professional does not need to state the condition for which resident needs the aid, just that it is necessary for the resident to live there and enjoy the residence as a person without a disability.
- 2. Guests

HOUSEHOLD MEMBERSHIP: WHO COUNTS?

1. Most year-round household members;
2. Members Temporarily away (e.g. students);
3. Children under joint custody with at least 51% of time in the household.
4. Military on assignment;
 - Adult children who join the military generally don't count.
 - *(Unless their spouse or dependent child resides in the unit.)*
5. Children of the resident living somewhere else as a foster child;
6. Permanently absent household members in a medical facility
 - *(obtain signatures, if possible)*
7. Children who belong in the household.
8. Foster Children and Foster Adults
9. Unborn Children
 - Unborn Children, children in process of being adopted, and children for whom custody is being obtained should be counted for both income and occupancy.

HOUSEHOLD MEMBERSHIP: WHO COUNTS? CONT'D

Changes in Household Composition

All household members must be certified and under lease. In the event the resident in a low-income unit later wishes to have an additional person move into the unit, the following steps must be taken:

- All adult residents must complete new applications and allow for verification of income and assets as required.
- The prospective resident's income must be added to the current resident's currently certified income and a determination made as to whether the income of the new member exceeds the 140% of the current income limit. If it does then the Next Unit Rule applies . The next available unit must be leased to a tax credit eligible family.
- A revised **Tenant Income Certification Form** must be completed and signed by all household members 18 years of age and older.
- In the event a household member vacates the unit, the unit will remain in the category as originally certified. The resident file should be documented when any household member vacates the unit.



WHOSE INCOME DO YOU COUNT?

- Count all income for head/co-head/spouse, regardless of age;
- Earned (unemployment) income for family members age 18 +
- Unearned income of everyone in the household, regardless of age; and
- First \$480 of annual earned income for full time students age 18+.
 - If treated as a dependent of the household.

Note: Income purposes you count income for *foster children* (unearned income) and *foster adults* (all income).

WHOSE INCOME DO YOU COUNT? CONT'D

- For tax credit purposes, the “effective date” is the date the resident moves into the unit.
- All income is counted unless it is specifically excluded by HUD regulation (HUD Handbook 4350.3 Rev. 3).
- Income does not have to be cash into the household. It can be paid to third parties on behalf of the household.
- Groceries (gifts of food are never counted as income)
- Periodic payments usually count as income.
- Veteran’s disability benefits (except for deferred amounts);
- Dependent indemnity compensation for the widow of a service member killed in action.
- Lump Sum Delays are not income.
- Except, processing delays for welfare or unemployment.
- Student Income: (Project Based /HOME funds)
- Count grants and scholarships in excess of tuition as income for students receiving Section 8 assistance, unless
- Student is dependent of household (not co-head); or
- Student is age 24+ with dependent children.
- Don’t count any grants or scholarships for students not receiving Section 8.

TYPES OF ASSETS

- Cash on hand
- Bank Accounts
- Investment Accounts
- Certificate of deposit
- IRA's
- 401K's
- Safe deposit boxes
- Personal items held for investment purposes
- Assets disposed of for less than fair market value
- Real Estate – not yet sold

THREE CRITICAL ELEMENTS: **ACCESS, CASH VALUE & IMPUTING**

- Assets are items of value, other than necessary personal items, and are considered along with verified income to determine the eligibility of a household.
- Cash held in savings and checking accounts, safe deposit boxes, etc. For savings accounts, use the current balance. For checking accounts, use the average balance for the last six months.
- Stocks, bonds, treasury bills, certificates of deposit, mutual funds and money market accounts;
 - Interest or dividends earned are counted as income from assets even when the earnings are reinvested.

WHAT ARE ASSETS AND HOW TO COUNT THEM

- **Real Estate**

- Establish Fair Market Value
- Assessment
- Appraisal
- Real Estate Listing
- Broker's Statement
- Bona Fide Sales Contract

Establish Cash Value

- Fair Market Value minus Mortgage Principal and Cost of Sale = Cash Value
 - Cost of sale includes broker fees, closing costs, mortgage principal, etc.
 - 10% is a commonly accepted cost of sale but check with your HFA.

Income from Real Estate

- Verify any rental amount
 - Deduct on-going operating expenses, taxes, insurance, mortgage interest (all must be verified)

BASIC ASSET RULES

- Never ignore assets, no matter how minimal.
- If assets are \$5,000 or less, actual income must be counted, but income is never imputed.
 - Verification of assets may not be required for LIHTC properties.
- If total household assets exceed \$5,000, all assets must be verified.
 - Actual income from assets must be compared to imputed income and higher of the two added to household income.
- The HUD passbook rate as published in HUD Handbook 4350.3 must be used.
- Management must determine whether assets have been disposed of for less than fair market value at move-in [two years prior to application] and at each recertification.

WHAT ARE ASSETS AND HOW TO COUNT THEM

- Investment Accounts:
 - In accordance with HUD Handbook 4350., Chg. 4, “the withdrawal of cash or assets from an investment received as periodic payments should be counted as income. Lump sum receipts from pension and retirement funds are counted as assets. If benefits are received through periodic payments, **do not count any remaining amounts in the account as an asset.**”
- Cash value of life insurance policies available to the tenant before death;
 - E.g., whole or universal life insurance (term life will not be an asset). You are to always verify the cash surrender value. (what is the cash value if you were to cash in this policy)

WHAT ARE ASSETS AND HOW TO COUNT THEM?

- Equity in real property or other capital investments. Equity is the current fair market value less:
 - a) any unpaid balance of loans secured by the property; and b) reasonable costs that would be incurred in selling the asset (e.g., penalties, broker fees, etc.).
- Cash value of trusts that are available to the household (revocable trusts).
- IRAs, Keogh and similar retirement savings accounts, even though withdrawal may trigger a penalty. If the individual is making withdrawals from the account, determine the amount of the asset by using the average balance for the previous six months. (Do not count withdrawals as income.)
- Amounts in retirement/pension funds that can be withdrawn without retiring or terminating employment is considered an asset.



WHAT ARE ASSETS AND HOW TO COUNT THEM?

- Personal property held as an investment such as gems, jewelry, coin collections, antique cars, etc. An applicant's wedding ring and other personal jewelry are not considered assets.
- Lump sum receipts or one-time receipts such as inheritances, capital gains, one-time lottery winnings, settlements on insurance, and other claims.
- A mortgage or deed of trust held by applicant. (See HUD Handbook 4350.3, Chapter 3, Exhibit 3-4, which sets out the method of calculating actual income for the interest portion of payments received and imputed income on the asset value.)
- Assets disposed of for less than fair market value during the two years preceding certification or recertification.



ASSETS OWNED JOINTLY

- If more than one person shares ownership of assets, prorate the assets according to the percentage of ownership. If no percentage is specified, prorate evenly.
- If an individual does not effectively own assets, don't count.
- E.g., joint bank account with senior resident and child (who benefits, who contributes, who pays taxes?)

DETERMINING CASH VALUE OF ASSETS

- The “cash value” of an asset is the market value less reasonable expenses that would be incurred in selling or converting the asset to cash. Examples include:
- Penalties for premature withdrawal
- Broker and legal fees; and
- Settlement Costs for real estate transactions.

WHAT ARE ASSETS AND DO YOU COUNT THEM?

- **Assets Do Not Include:**
- Assets that are not accessible to the family and which provide no income for the family (e.g., a battered spouse owns a house with her husband, but because of the domestic situation she receives no income from the asset and cannot convert the asset to cash).
- Assets that are not effectively owned by the family, i.e., when the assets are held in an individual's name, but:
- Asset and income from asset accrue to someone else, and that other person is responsible for paying income taxes on the income generated by the asset.
- **Example:** Assets held pursuant to a power of attorney because one party is not competent to manage the assets.

IMPUTED INCOME

- This is a percentage of the value of family assets based on the current passbook savings rate established by HUD. The rate is currently set at .06%.
- “Imputed” means “attributed” or “assigned”.
- Imputing income from assets is “assigning” an amount of income solely for the sake of the annual income calculation.
- The imputed income is not real income.
- For example, money under a mattress is not earning income. If the money were put in a savings account, it would earn interest.
- Imputed income from such an asset is the interest the money could earn if it were put in a savings account.

ASSETS DISPOSED OF FOR LESS THAN FAIR MARKET VALUE

- Applicants must declare whether an asset has been disposed of for less than fair market value in the two years before the application. Current residents must state whether assets have been disposed of for less than fair market value in the two years before the recertification.
- The amount counted as an asset is the difference between the cash value and the amount actually received.
- Any asset that is disposed of for less than fair market value is counted, including cash gifts as well as property.
- **Note:** This rule applies only when the fair market value of all assets given away during the past two years exceeds the gross amount received by more than \$1000.
- Once the 24-month period expires, the disposed of amount is no longer counted as an asset and income ceases to be imputed to that amount.
- Assets disposed of for less than fair market value because of foreclosure, bankruptcy, divorce or separation are not counted.

WHAT ARE ASSETS AND DO YOU COUNT THEM?

- **Assets Do Not Include:**
- Necessary personal property (clothing, furniture, cars, etc. except as noted above).
- Interests in Indian trust land.
- Assets that are part of an active business or farming operation. (Note: rental properties are considered personal assets held as an investment rather than business assets unless real estate is the applicant's main occupation.)
- Term life insurance policies (i.e., where there is no cash value).
- Equity in the cooperative unit in which the family lives.

INCOME QUESTIONS



An employment verification shows that your applicant will earn \$9.50 per hour for 40 hours per week with average weekly overtime of two hours. What is the annual income?



\$21,242.00

The father of a resident pays her monthly car payment. He makes payments directly to the bank that provided the car loan. The monthly payment is \$450. On an annual basis, how much income must be included for the resident based on this payment?



\$5400

The income of an applicant is verified as follows:
\$11.25 per hour, 40 hours per week, with a 4% raise
expected to be effective for pay received in the sixth week
after move-in. The applicant is paid weekly. What is the
annual income?



\$24,228

A teacher works nine months per year and is paid \$3,000 per month and is paid in each of the 12-months of the year. During every summer, she travels but does not work. Calculate annual income.

\$42,000

Mark Smith receives social security disability of \$800 per month. He reports that he works as a handyman periodically, and his SSI verification shows \$1200 of employment income for the past year. Based on records Mark was able to provide, it appears that he worked for a brief period only in March of last year. What is the projected income for Mark?

\$9600

ASSET QUESTIONS



Lucille is an applicant at a tax credit property. She and her daughter, Ellen have a joint savings account. Only Lucille contributes funds to the account and uses the account to help with her living expenses. Lucille pays taxes on the interest earned. State law does not specify ownership of the account. What percentage of the account should be counted for Lucille?



A. 0

B. 25%

C. 50%

D. 100%

You have verified the following for a new applicant:

Certificate of Deposit Cash Value: \$8,250

Real Estate Cash Value: \$89,000

Safe Deposit content investment value: \$10,000

Whole life Insurance Death Benefit: \$20,000 (the policy has no surrender value)

What are the total assets for the household that will be shown on the TIC?



\$107,250

Marcus lives alone. One year ago, he placed \$320,000 in trust for his granddaughter to be available to the granddaughter upon the death of Marcus. The trust is nonrevocable and Marcus has no control of the principal in the account and cannot amend the trust or remove the funds at any time. Any interest earned on the Trust goes in the trust. How is the trust handled for tax credit purposes?



- A. Since it is in a trust the money is not counted as an asset.
- B. The \$320,000 is counted as an asset for Marcus and income is imputed.
- C. The \$320,000 is an asset and any interest earned is counted as income for Marcus.
- D. The \$320,000 is not considered an asset but any interest earned is income.



Lisa placed \$175,000 into a nonrevocable trust for her daughter 24 months before her application to move into a tax credit property. Last year, the trust produced \$8,500, which was reinvested into the trust. How much of the trust must be counted as an asset for Lisa?

What is the income from the trust?

Zero & Zero

An applicant provides six consecutive bank statements showing the following amounts:

Month 1: Checking balance \$400; Savings balance \$2,200

Month 2: Checking balance \$270; Savings balance \$2,202

Month 3: Checking balance \$365; Savings balance \$2,204

Month 4: Checking balance \$425; Savings balance \$2,350

Month 5: Checking balance \$190; Savings balance \$2,100

Current Month: Checking balance of \$210; Savings balance of \$950

What is the value of the checking account that should be shown on the certification?

What is the value of the savings account that should be shown on the certification?



\$310

\$950

QUESTIONS?