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Income Eligibility for HOME and HTF

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- Agenda
  - Income Basics
  - Determining Income Eligibility
  - Part 5 and IRS Definitions
  - CPD Income Eligibility Calculator Demonstration



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Income Basics



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**Overview of Income Determination**

- 100% of HOME must benefit low-income (deeper targeting for rental/TBRA)
- 100% of HTF must benefit extremely low income (\$ less than a \$1 billion in the fund)
- Income eligibility must be determined for each assisted household
  - Includes all tenants, owners, buyers
  - Documentation is required
- If program administrator does not have income documentation, the project is noncompliant
  - HUD may require repayment of HOME/HTF investment and/or other corrective action




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**A Few Key Acronyms & Terms**

HOME	HTF
<b>Low Income</b> • A household at or below HUD published 80% of AMI	N/A
<b>Very low- income</b> • A household at or below HUD published 50% of AMI	N/A unless HTF is greater than \$1 billion
<b>Extremely low –income</b> • A household at or below HUD published 30% of AMI	<b>Extremely low-income</b> • A household at or below HUD published 30% of AMI (at or below the poverty line, whichever is greater)

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**A Few Key Acronyms & Terms (cont)**

- Annual (gross) income (use for eligibility)
  - Sum of income for all household members expected to reside in HOME/HTF unit
  - Determined using one of the two definitions
- Adjusted income (not for eligibility)
  - Deduct amounts from gross income for certain specified household costs




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Projecting Income Forward

- Use a snapshot of the household – members and income – to project income forward for 12 months
- Steps to projecting annual income
  - Step 1: Collect appropriate income documentation
  - Step 2: Ask questions about raises or other anticipated income changes (from employer, applicant)
  - Step 3: Calculate applicant household’s projected income based upon documentation
  - Step 4: Compare amount of projected income against current HOME/HTF income limits for the household size
  - Step 5: Include income limit used and date in file to document actions



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Overview of Annual Gross Income Eligibility Process

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graph TD; A[Receive Application, Release from HH, and Income and Asset Source Documentation] --> B[Calculate HH Income Using Worksheet  
• If Part 5 (Section 8) definition, asset calculation]; B --> C[Compare to HUD Published Income Limits]; C --> D[Document Files];
```



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Determining Income Eligibility



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**Two Income Definitions**

- Program administrators may select one of two income definitions for each activity
  - Part 5 (“Section 8”)
  - IRS 1040 Adjusted Gross
- Definition may vary among activities, but not for participants within same activity




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**Income Eligibility for Program Activities**

- Program administrators must identify income definition in:
  - Program policies and procedures
  - Written agreements with subrecipients, HTF subgrantees, owners, sponsors and developers, and any other partner
- Application
  - All household members, including ages
  - Ask for income and asset sources for each household member, depending upon definition chosen
  - Use signed declaration language
- 60 days of source documentation required, even if using third party verification forms (e.g., VOE from employer)




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**Income Eligibility Procedures (cont)**

- Include forms to be used (local design)
  - Release from household (sample in Technical Guide)
  - Income calculation worksheet for definition chosen (samples in Technical Guide)
    - Part 5, page 23
    - IRS, page 39 (Note, this is not updated using the most current IRS 1040 form and instructions)
  - Third party verifications used in the program




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**Income Eligibility Procedures (cont)**

- Documents include pay stubs, Social Security award letters, etc.
  - If using pay stubs, review several to determine patterns
  - Verify overtime, tips and bonuses
- Copies of tax returns are okay if:
  - Circumstances have not changed since filing (if income likely to remain same next year)
  - Use tax return to determine income information (e.g. self employment, other sources of income)
  - If sole documentation: obtain certified IRS copy by using form 4506 or 4506T (free)




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**Determination of Applicant Household**

- Count income of ALL adults who will be in residence or part of household when HOME/HTF assistance received
- Include all household members:
  - Related and unrelated household members
  - Temporarily absent household members
- “Family” is not used in HOME Program




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**Determination of Applicant Household (cont)**

- Don't count foster children/legal kinship guardians or foster adults, live-in aides and children of live-in aides
  - Income and/or benefits are also not counted (except unearned income of foster children)
- Program administrator option to count unborn children or not
  - Recent change with January 2005 version of technical guide
  - Suggest adding question to application on household changes within next 12 months
- Shared custody children
  - Count if at least 50% of time is with household seeking HOME assistance
- Students (HOME only) – see next slide




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- Student Rule (HOME only)
  - Definition of low/very low income families at § 92.2 clarified and updated to address students (adopts the Section 8 standard at 24 CFR 5.612)
  - Students under age 24 do not qualify as a low income household unless:
    - Independently eligible or member of income eligible household; or
    - Specific exceptions: veteran, married (including same-sex), has dependent child, or is disabled and was receiving Sec. 8 assistance as of 11/30/2005
    - Applies to any HOME-assisted household, regardless of activity
    - New households: income determinations on/after 8/23/2013
    - Existing rental households: in place tenants are not “grandfathered in,” handle at recertification




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- In place students (HOME only)
  1. In place students are members of another household
    - Determine composition and income of that household
    - AMI based on location of household’s primary residence
    - HOME requires source documentation
  2. Apply over-income tenant rules to (re-)achieve compliance with HOME unit mix
    - Varies for fixed/floating units




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**Income Recertification**

- Must recertify income at least annually:
  - Must review source documents every 6<sup>th</sup> year of the affordability period
  - For other years can use:
    - Source documents
    - Written statement from household
    - Statement from administrator of another program
- Recertify at:
  - Anniversary date of initial verification;
  - Lease renewal; or
  - Annual schedule where all tenant incomes are verified at one point




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Income between 50 - 80% AMI (HOME only)  
MATTERS ONLY FOR LOW HOME RENT UNITS

- Rent: **stays at Low HOME rent** until High HOME rent unit is designated as Low HOME rent
- Once replacement is identified, rent **adjusts to High HOME rent**
- Unit is now designated as a High HOME rent unit


Income greater than 80% AMI (HOME only)  
SAME ACTIONS FOR HIGH AND LOW HOME UNITS

**Fixed unit:**

- Rent: raise to 30% of monthly income
- Next Available **HOME** unit must address High/Low HOME unit proportions
- No action for next available non-HOME unit

**Floating unit:**

- Rent: raise to LESSER OF 30% monthly income or Comparable Market Rent
- Next available **non-HOME** unit
  - Must be designated as HOME unit and
  - Address High/Low HOME unit proportions




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Income Recertification (cont)

- For HTF
  - If over income, regulations do not permit the rent to be raised to 30% of monthly adjusted gross income
  - Exception made for federal or state project-based vouchers




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Part 5 and IRS Definitions




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**Two Definitions of Income**

- Part 5 (Section 8) Definition of Income (24 CFR 5.609 (b)& (c))
  - Income inclusions and exclusions
    - [https://www.hudexchange.info/plugins/incomecalculator/assets/docs/HUD\\_P5\\_Inclusions\\_Exclusions.pdf](https://www.hudexchange.info/plugins/incomecalculator/assets/docs/HUD_P5_Inclusions_Exclusions.pdf)
  - Assets & Imputed asset calculation
- IRS 1040 Definition of Income
  - Income & asset inclusions and 1040 deductions
  - Instructions - <https://www.irs.gov/pub/irs-pdf/i1040gi.pdf>
    - <https://www.irs.gov/newsroom/irs-provides-safe-harbors-to-help-taxpayers-suffering-property-losses-including-losses-from-hurricanes>
    - What's New - helpful each year to review




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**Part 5 Income Inclusions**

- Wages, salaries, overtime, commissions, tips, and bonuses
- Net income from operation of a business or profession
- Periodic payments (Social Security, annuities, regular contributions to income)
- Payments in lieu of earnings (Unemployment, TANF, etc.)




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**Part 5 Income Inclusions (cont)**

- Welfare assistance (not food stamps)
- Periodic and determinable allowances, alimony and child support
- All regular pay, special and allowances for armed forces (not hostile fire)
- Earnings of temporarily absent household members




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**Part 5 Income Exclusions**

- Earned income of minors under age 18 [unearned income (e.g., child support, SSI) is counted]
- Earned income of live-in aides
- Payments for foster care/legal kinship guardians
- Lump sum additions to assets (e.g., inheritances, lottery winnings)
- Reimbursement of medical expenses
- Certain increases in income of disabled household members in HOME rental units or TBRA (at recertification only)




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**Part 5 Income Exclusions (cont)**

- Student financial assistance (scholarships, student loans) paid directly to the student or to the educational institution (NOTE: unless Section 8 household over age 23 with dependent children)
- Hostile fire pay for active military
- Training programs funded by HUD (e.g., under Section 3)
- Sporadic or temporary income (including gifts)
- Earnings over \$480 for full-time students (adults 18 years of age and older)
- Adoption assistance over \$480 per adopted child




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**Part 5 Income Exclusions (cont)**

- Deferred payments of SSI and veterans benefits (e.g., lump sum payments)
- Refunds/rebates by state or local law
- State agency payment for care of developmentally disabled member
- Various Federal statutes exclude, for example:
  - Food stamps
  - Payments to volunteers (e.g., VISTA, AmeriCorps, etc.)
  - Title V of Older American Act
  - Earned income tax credits




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**Part 5 Income: Assets**

- A cash or non-cash item that could be converted to cash
- No asset limitation in HOME Program
  - Program administrators may have own policy on limitation
- Asset income must be included in annual income under the Part 5 definition
  - LIHTC program does not include assets totaling less than \$5,000; HOME considers all assets in Part 5 asset calculation




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**Part 5: What to Include as an Asset**

- Market value – dollar value on open market
  - Do not include value of home for HOME owner-occupied rehabilitation activities
- Cash value – market value minus reasonable expenses to convert asset to cash
  - Example: land worth \$25,000 – cost to sell is \$2,500; value of asset is \$22,500




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**Part 5 Unique Rule: Imputed Asset Calculation**

- If asset produces little or no income, an “imputed asset” calculation is performed:
  - Rule only applies when total cash value of all assets is greater than \$5,000
  - Calculate imputed income based on a Passbook Rate
    - Use “greater of” actual or imputed earnings
  - Passbook Rate, three options
    1. Use the same passbook savings rate used by their local public housing authority (PHA);
    2. Use the passbook savings rate published by HUD’s Office of Multifamily Housing; or
    3. Establish its own passbook savings rate.




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## Part 5 Unique Rule: Assets Disposed of Below FMV

- Any asset disposed of for less than FMV during 2 years preceding income determination must be counted as if household still owned asset
- Include difference between cash value of asset and amount actually received in disposition




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## IRS 1040 Definition of Income

- Use IRS Long Form – not short form known as 1040EZ
  - Must use current IRS 1040 form and instructions on definition
- Certain kinds of income are added together to get gross income
- Certain deductions are then taken to arrive at adjusted gross income figure
  - This is not “adjusted income”
  - Use most current 1040 deductions
- Use IRS 1040 adjusted gross income to determine program eligibility
- Program administrators must use the most recent IRS 1040 Instructions




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## IRS 1040 Definition (cont)

- Subtract applicable deductions from gross income to obtain the household’s adjusted gross income
- Deductions include, for example:
  - IRA purchased that year
  - Medical savings account payments
  - Moving expenses
  - ½ self employment tax
  - Self-employed health insurance deduction
  - Self-employed SEP and SIMPLE plans
  - Penalty on early withdrawal from savings
  - Paid alimony
  - Student loan interest




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**IRS 1040 Definition (cont)**

- Inclusions for gross income
  - Wages, salaries, tips, etc.
  - Taxable interest
  - Dividends
  - Taxable refunds, credits, etc.
  - Alimony received
  - Business and/or farm income (or loss)
  - Capital gains or losses
  - Taxable amount of Social Security, retirement, pension or annuity payments
  - Rental real estate, royalties, partnerships, S corporations, etc.
  - Other income (e.g., gambling, lottery or raffle winnings Alaska Permanent Fund, etc.)



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**IRS 1040 Definition (cont)**

- Exclusions from gross income
  - Life insurance proceeds
  - Inherited money or property
  - Child support received



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**IRS 1040 Definition: Assets**

- Assets
  - Part 5 asset calculation is not required
  - Income from assets must still be counted (see prior slide):
    - Taxable interest
    - Dividends



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Comparing Definitions of Income

- Basic differences:
  - Child support received – not included in the IRS Form 1040 definition
  - Alimony payments received – included in the IRS definition
  - Part 5 definition – involves imputed income from assets calculation
  - Inheritances and insurance payments are included in Part 5 asset calculation, but excluded from IRS definition




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Comparing Definitions of Income (cont)

- If projects also funded with LIHTC, program administrators must use Part 5
- If PHA is managing a program, they are often experts in Part 5
- Part 5 can be more complex to document and calculate but rental project developers may already have S. 8 tenants
- IRS 1040 (if households receive SS) definition requires knowledge of the most current year “taxable amounts”




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CPD Income Eligibility Calculator  
Demonstration




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## CPD Income Calculator

- Use CPD Income Calculator
  - <https://www.hudexchange.info/incomecalculator/>
- User Manual
  - [https://www.hudexchange.info/resources/documents/CPDIncomeEligibilityCalculator\\_User\\_Manual.pdf](https://www.hudexchange.info/resources/documents/CPDIncomeEligibilityCalculator_User_Manual.pdf)
- Allow 15 minutes for each applicant and use Technical Guide to accompany calculator input
- You can save/print to a PDF




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## Scenario 1 – HOME Homebuyer program

- Household of 4
- Fort Wayne, Indiana
- Two adults and two children
  - Teacher Aide - \$20,000
  - Health Care Worker - \$15 per hour/average 20 hours per week, \$16 raise on March 1, 2018
  - Savings account \$6,000, annual income \$1




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## Scenario 2 – HTF Rental program

- Household of 2
- Columbus, Ohio
- Two adults
  - Head - Social Security Disability (SSD) - \$800 per month
  - Child - Part time mechanic and full time student over the age of 25
    - Wages - \$5,000 a year
    - Average balance in checking \$1000, \$500 in savings




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## Other Calculator Features

- Adjusted Income
  - Subsidy and tenant’s share of rent for HOME TBRA
  - Rent for tenant whose income increases above the low-income limit (HOME only)
  - Amount of relocation assistance to be provided under Section 104(d)
  - Rent in Low HOME Rent units (optional) and other HUD multi-family programs (e.g., 202, 811, with project-based assistance)
- Rental Assistance – rent and program administrator payments under HOME TBRA




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## Wrap Up




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- Next steps:
  - Make a list of “to do” items
  - Review HOME and HTF program applications, amend as necessary
  - Review your income policies and procedures, update as necessary
  - Assess your income documentation templates/forms, update as necessary
  - Encourage usage of HUD Exchange CPD Income Eligibility Calculator
  - Train subrecipients, HTF subgrantees, developers and managers on income eligibility
  - Review your files to ensure accurate and complete




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**Resources**

- Income limits are updated annually by HUD
- HOME income limits
  - <https://www.hudexchange.info/manage-a-program/home-income-limits/>
- HTF income limits
  - <https://www.hudexchange.info/programs/htf/htf-income-limits/>
- HUD Exchange list serve
  - <https://www.hudexchange.info/maillinglist/>



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**Resources (cont)**

- Technical Guide for Determining Income and Allowances Under the HOME Program
  - <https://www.hudexchange.info/resource/786/technical-guide-for-determining-income-and-allowances-for-the-home-program/>



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