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Determining Income 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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A Few Key Acronyms & Terms

HOME	HTF
Low Income <ul style="list-style-type: none">A household at or below HUD published 80% of AMI	N/A
Very low- income <ul style="list-style-type: none">A household at or below HUD published 50% of AMI	N/A unless HTF is greater than \$1 billion
Extremely low –income <ul style="list-style-type: none">A household at or below HUD published 30% of AMI	Extremely low-income <ul style="list-style-type: none">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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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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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

**Receive Application, Release from HH,
and Income and Asset Source
Documentation**



Calculate HH Income Using Worksheet

- If Part 5 (Section 8) definition,
asset calculation



Compare to HUD Published Income Limits



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 verification



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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 6th 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
 - 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 –1040EZ no longer used in 2018
 - 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
- Schedule 1 deductions include, for example:
 - Educator expenses
 - Certain business expenses of reservists, performing artists, and fee-basis government officials (form 2106)
 - IRA deduction
 - Health savings account payments (form 8889)
 - Moving expenses for members of the Armed Forces (form 3903)
 - Deductible part of self-employment tax (Schedule SE)
 - Self-employed SEP, SIMPLE, and qualified plans
 - Self-employed health insurance deduction
 - Penalty on early withdrawal from savings
 - Alimony paid (need recipient SSN)
 - Student loan interest deduction



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IRS 1040 Definition (cont)

- Inclusions for gross income
 - Taxable interest
 - Dividends
 - Taxable amount of Social Security, IRAs, pensions and annuities
 - Schedule 1 Additional Income
 - Taxable refunds, credits, etc.
 - Alimony received
 - Business and/or farm income (or loss)
 - Capital gains or losses
 - Rental real estate, royalties, partnerships, S corporations, etc.
 - Unemployment Compensation



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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
- 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 and average bal. in checking \$1000, \$500 savings
 - Child - Part time mechanic and full time student over the age of 25
 - Wages - \$5,000 a year

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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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- 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/>
- HUD Handbook 4350.3 Ch. 4 Occupancy Requirements of Subsidized Multifamily Housing Programs (Chapter 5)
 - Updated when changes made to Part 5 regulations
 - Used in HUD multifamily programs with S. 8 assistance tied to project
 - Cannot be uniformly adopted for HOME
 - https://www.hud.gov/program_offices/administration/hudclips/handbooks/hsggh/4350.3



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- HUD Exchange HOME Main Page
 - <https://www.hudexchange.info/programs/home/>
- HOME income limits
 - <https://www.hudexchange.info/manage-a-program/home-income-limits/>
 - FY2018 effective June 1, 2018
- HOME Income Forms
 - <https://www.hudexchange.info/programs/home/topics/income-determination/>
- Determining Income Webinar June 2018
 - <https://www.hudexchange.info/trainings/courses/determining-income-for-the-home-program-session-1/2532/>
- HUD Exchange list serve
 - <https://www.hudexchange.info/maillinglist/>



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Housing Opportunity Through Modernization Act (HOTMA)

- HUD is currently engaged in rulemaking after the passage of the Housing Opportunity Through Modernization Act of 2016, Public Law 114-201 on July 29, 2016
- HUD will publish a proposed rule to implement HOTMA in the near future
- When the proposed rule has published, you will have opportunity to comment on any proposed changes made to the HOME program
- Public Law 114-201
 - <https://www.gpo.gov/fdsys/pkg/PLAW-114publ201/pdf/PLAW-114publ201.pdf>
- HUD Initial Implementation Guidance
 - <https://www.federalregister.gov/documents/2016/10/24/2016-25147/housing-opportunity-through-modernization-act-of-2016-initial-guidance>