

Determining/Calculating Income Training Webinar For West Virginia Development Office

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The Cloudburst Group

8(a) and SDB Certified

A Little About You.....

- Type of Organization
 - Subrecipient
 - Contractor
 - Developer
 - State
- Years of Experience
- <1 yr 1-5 yr 5-10 yr 10+yr
- Expertise in Documenting Income
 - Novice
 - Some experience
 - I can cite all of the Part 8, section income exclusions from memory!!

Overview

■ Purpose

- To provide guidance on how to calculate annual gross income that determines eligibility for NSP housing assistance.
- To share information on:
 - The HUD rules regarding income.
 - Requirements for using Part 5 income determination definition.
 - Verifying and documenting income.

Why this is Important

- If income documentation is not in project files for homebuyers and tenants participating in NSP, the project will be out of compliance and HUD may require repayment of NSP funds and/or other corrective action.
- Having correct information about household income is essential to underwriting both NSP mortgage assistance and prequalifying NSP clients for mortgage loans for homebuyer activities.
- For tenants, it is essential to ensure that tenants are being charged the appropriate NSP rents based on verified tenant household income.

A Few Key Terms to Start

- ***Very low income***
 - A household at 50% of Area Median Income (AMI) or below.
- ***Moderate income***
 - A household at 120% of AMI or below.
- ***Annual gross income***
 - Sum of household income.
 - As determined using Part 5 definition.
- ***Adjusted income***
 - Deducts amounts from gross income for certain specified family costs.

How is the Income Definition Used?

- Under NSP income calculations are used for:
 - Eligibility
 - Occupancy of rental projects
 - Subsidy amounts

Determining Income for NSP Activities

NSP Program Activities	Uses of Income Definition
Homebuyer Activities	Incomes cannot exceed 120%, Eligibility is based on annual gross income
Rental Activities	Use Part 5 definition for initial determination of household income
	<ul style="list-style-type: none">• Can use annual (gross) income and adjusted income to determine project rents for tenants below 50% of AMI
	<ul style="list-style-type: none">• Cap at market rent for floating units
	<ul style="list-style-type: none">• Rents capped by high and low HOME limits

Resources

- NSP Program Regulations
 - Title III of Division B - Public Law 110-289, the "[Housing and Economic Recovery Act of 2008](#)" (HERA) as published October 6, 2008.
- HUD Income Regulations
 - 24 CFR Part 5
 - Updated periodically; agencies have 60 days to implement changes.
 - 24 CFR Parts 5, 92 and 908 – Refinement of Income & Rent Determination Requirements in Public & Assisted Housing Programs, Proposed Rule – June 19, 2007

Resources (Continued)

- ***“Technical Guide for Determining Income and Allowances for the HOME Program,”***
HUD-1780-CPD, Third Edition - January, 2005
- HUD Handbook 4350.3 – ***Occupancy Requirements of Subsidized Multifamily Housing Programs (Chapter 5)***
 - Updated when changes are made to the regulations.

Chapter 2 – General Requirements

■ General Requirements

- Whose income to count?
 - Generally all adult household members – meaning age 18+ (some exceptions).
- Anticipating income
 - Grantees and Subrecipients are required to project a household's income – create a “snapshot” of current circumstances.
 - Grantees and Subrecipients should assume that current circumstances will continue for next 12 months.
 - Exception is when documentation is provided that current circumstances are about to change.

General Requirements (Continued)

- Verifying Income
 - In order to determine income eligibility of NSP applicants, HUD requires an examination of source documents.
 - Wage and interest statements that show evidence of annual income
 - May use two verification procedures:
 - Third-party verification
 - Review of documents

General Requirements (Continued)

- Sample verification forms can be found in Attachment 2 of the "***Guide to Completing NSP Income Certifications***" located in the NSP Homeownership Tool Kit:
 - <http://www.hudnsphelp.info/index.cfm?do=viewToolkitsHome>

Third-Party Verification

- Employer, Social Security Administration, or public assistance agency provides information on income.
- Must obtain written authorization from household to permit third party to release required information language. Typically provided on NSP application form.
- Provides independent verification of information.

Review of Documents

- Documents include pay stubs and tax returns.
- Be sure to verify overtime, tips and bonuses.
- Can be used as an alternative to third-party verifications.
- **NOTE:** Copies of tax returns used as source documents must be certified by the IRS using IRS Form 4506:
 - <http://www.irs.gov/pub/irs-pdf/f4506.pdf>

Assessing Information

- Things to consider:
 - Pay period
 - Variations in pay
 - Sources of earned income

Comparing Income to Limits

- Have to compare household and income information to the appropriate HUD income limits to determine eligibility.
- Should have a copy of most recent income limits to determine eligibility:
 - <http://www.hud.gov/offices/cpd/affordablehousing/programs/home/limits/income/index.cfm>

Comparing Income to Limits (Continued)

- Income limits are adjusted by household size.
 - Do not count foster children or foster adults, live-in aides and children of live-in aides.
- Steps to comparing income to limits:
 - Locate the project's geographic area on the income limit chart.
 - Find column that corresponds to the number of persons in the household.
 - Compare the verified income of the household with the income limit for that household size.

Summary – Comparing Income to Limits

- Steps to Project Annual Income
 - Step 1: Collect appropriate income documentation.
 - Step 2: Calculate the applicant household's projected income based upon documentation.
 - Step 3: Compare the amount of projected income against current NSP income limits.

Timing of Income Certifications

- Income certification must be completed before NSP assistance begins.
- Verification dates no later than six (6) months prior to eligibility.
- Households must qualify at the time of occupancy or at the time NSP funds are invested, whichever is later.

Determining Income Requirements

- **Part 5 Requirements**
 - Gross amount of income of all adult household members that is anticipated to be received during the coming 12-month period.
 - Gross amount: before deductions are taken
 - Income inclusions: types of income to be counted
 - Income exclusions: types of income not to be considered
- **Anticipated income: a projection of earnings over the next 12 months**

Whose Income to Count?

- Both related and unrelated household members.
- Shared custody of children should be counted if at least 50% of time is with the household seeking NSP assistance.
- Temporarily absent household members who will return to the household, for example:
 - Members who are temporarily absent for school or work;
 - Those who are incarcerated for a short time and will return to household; or
 - Active military members who will return to household

Whose Income to Count? (Continued)

- May also mean:
 - Permanently absent members (it is up to the head of household to decide who is permanently absent). *
For example:
 - An elderly member who has gone to live in a nursing home
 - Adult student living away from home.

* If the applicant includes these persons as household members, the income of these household members must also be included.

Whose Income to Count? (Continued)

- Don't count income from:
 - Foster children and legal kinship guardians or foster adults, live-in aides and children of live-in aides.
 - Earned income of minors.
 - Earned income from adult full-time students in excess of \$480 (except head or spouse).
 - Income of live-in aides.

Part 5 Income Inclusions

- Wages, salaries, overtime, commission, tips, and bonuses.
- Net income from a business.
- Interest, dividends, and net income of any kind from real or personal property.
- Periodic payments.
- Payments in lieu of earnings.

Part 5 Income Inclusions (continued)

- Welfare assistance (not food stamps).
- Periodic and determinable allowances, alimony and support.
- All regular pay, special and allowances for armed forces (not hostile fire).
- Temporarily absent family members.

Part 5 Income Exclusions

- Employment income of minors and live-in aides.
- Payments for foster care.
- Lump sum additions to assets.
- Reimbursement of medical expenses.
- Certain increases in income of disabled household members.

Part 5 Income Exclusions (Continued)

- Student financial assistance.
- Hostile fire pay.
- Training programs like PASS.
- Sporadic or temporary income.
- Reparation payments.
- Earnings over \$480 for full-time students (adults).
- Adoption assistance over \$480.

Part 5 Income Exclusions (Continued)

- Public housing Family Self Sufficiency (FSS).
- Deferred payment of SSI.
- Refunds/rebates.
- State agency payment for developmentally disabled member.
- Various Federal statutes exclude:
 - Food stamps
 - Domestic volunteers
 - Title V of Older American Act
 - Earned income tax credits

Part 5: Assets

- A cash or non-cash item that can be converted to cash.
- No asset limitation in NSP Program.
- Income from assets is recognized as part of annual income under the Part 5 definition.
 - Income earned, not the asset value, is counted in annual income.

What to Include as an Asset

- Market value – dollar value on the open market.
- Cash value – market value less reasonable expenses required to convert the asset to cash.
- Under Part 5, only the cash value of an item is counted as an asset.

Actual Income from Assets

- Income counted is the actual income generated by the asset.
 - Interest on savings or checking account.
- Income that is anticipated to be received from the asset during the coming 12 months.

Unique Rules

- Asset produces little or no income:
 - Calculate “imputed” income based on a Passbook Rate.
 - Passbook Rate established periodically by HUD.
 - State of West Virginia currently uses 5%.
 - Rule only applies when total cash value of all assets is greater than \$5,000.

Imputed Assets

■ *Example:*

■ The Shaw Family

- \$3000 (average balance over 6 months) in a non interest-bearing checking account
- \$5,500 in an interest-bearing savings account.
- \$150 interest on the savings account

■ PJ counts imputed income based on Passbook Rate:

■ Imputed income ($\$8,500 \times .05$)= \$425

■ Actual income = \$150

■ Included in annual income = \$425

Sample Asset Calculation Worksheet

1. Name:		2. Identification No.:			
ASSETS					
Family Member	Asset Description	Current Cash Value of Assets	Actual Income from Assets		
3. Net Cash Value of Assets.....		3.			
4. Total Actual Income from Assets.....			4.		
5. If line 3 is greater than \$5,000, multiply line by ____ (Passbook Rate) and enter results here; otherwise, leave blank.			5.		
ANTICIPATED ANNUAL INCOME					
					Enter the greater of lines 4 or 5 from above in e.
6. Totals	a.	b.	c.	d.	e.
7. Enter total of items from 6a. through 6e. This is <i>Annual Income</i>					7.

ASSET CALCULATION WORKSHEET

1. Name: The Shaw Family		2. Identification No.: XXX-XX-0010			
Assets					
Family Member	Asset Description	Current Cash Value of Assets	Actual Income from Assets		
Mike & Sue	Checking Account (non-interest bearing)	\$3,000	-0-		
	Savings Account (interest bearing)	\$5,500	\$150.00		
3. Net Cash Value of Assets.....		3 \$8,500			
4. Total Actual Income from Assets.....			4 \$150.00		
5. If line 3 is greater than \$5,000, multiply line by <u>5%</u> (Passbook Rate) and enter results here; otherwise, leave it blank			5 \$425.00		
ANTICIPATED ANNUAL INCOME					
e. Asset Income					
Family Members	a. Wages/Salaries	b. Benefits/Pensions	c. Public Assistance	d. Other income	Enter the greater of lines 4 or 5 from the above in E.
Mike	\$30,000				
Sue	\$15,000				
6. Totals	A. \$45,000	B.	C.	D.	E. \$ 425.00
7. Enter total of items from 6A. Through 6E. This is Annual Income.....					\$45,425.00

More Unique Rules

- Asset disposed of at less than Fair Market Value (FMV):
 - Any asset disposed of for less than FMV during the two years preceding the income determination must be counted as if the household still owned the asset.
 - Amount to include is the difference between the cash value of the asset and the amount that was actually received in the disposition of the asset.

Calculating Annual (Gross) Income

- **Wage Rates and Variations in Pay**
 - Tips for calculating wage rates:
 - If paid for every week of the year: Pay rate times 2080 hours (40 hours times 52 weeks);
 - If not paid for every week: Pay rate times number of hours per week times number of weeks worked per year, OR multiply total quarterly pay times 4;
 - If paid twice a month: Pay rate times 24 (number of times paid in a year); or
 - If paid every 2 weeks: Pay rate times 26 (number of times paid in a year)

Variations in Pay



- Seasonal income
 - Can use the number of months or weeks worked in the previous year to anticipate the number of months or weeks they will work in the coming year.
 - Can use this number to annualize the household's income.

Example of Variations in pay:

- *Mr. Boatman provides three pay stubs. You add the three stubs together and divide by three to find the average monthly income of \$2,100 per month.*
- *Next, Mr. Boatman tells you that he only works 8 months out of the year. To annualize Mr. Boatman's income, you multiply the "**Average Monthly Income,**" which is \$2,100 in this case, by the "**Number of Months Worked Per Year,**" which is 8 for Mr. Boatman. So, for Mr. Boatman, this equation would be:*
- *\$2,100 times 8, which equals \$16,800 as his annualized income.*

Wage Rates and Variations in Pay (Continued)

- Other Common Sources of Income
 - Unemployment:
 - If a household member is currently receiving unemployment payments, verify amount received from award letter or verification of amount directly deposited in checking/savings account.
 - Self-Employed – need to determine net income from self employment or business. Can use Quarterly IRS tax filing or Profit/Loss Statements.
 - Construction and/or seasonal: ensure all employers are included, use verification letters and forms for all if possible.

Documentation Required for Verification

- **Types of Documentation**
 - Varies with the source of income:
 - Earned Income (wages, salary, overtime, bonuses, etc.)
 - 3 consecutive pay stubs or
 - Verification from employer

Sample Pay Stub

EARNINGS					TAXES / DEDUCTIONS	
EARNINGS	RATE	HOURS	THIS PERIOD	YEAR TO DATE		
REGULAR	19.22	64.00	1230.08	5861.04	FEDERAL W/H	
SALFLTHOL	19.22	8.00	153.76	153.76	SOCIAL SECURITY W/H	
SALVACTKN	19.22	8.00	153.76	153.76	MEDICARE W/H	
SALHOLIDY				292.24	MED PRETX	
					DEN PRETX	
					STD	
					LTD	
					401K	
					Fx Prk Pre	

	GROSS PAY	TAXES	DEDUCTIONS	NET PAY
CUR	1537.60	345.89	236.02	955.69
YTD	6460.80	1400.15	972.90	4087.75

VAC BAL	67.10	VAC/SICK Balances for the Period Ending : 21-JUL-2006
SICK BAL	54.78	

Types of Documentation

- **Self-Employed Income**
 - Net Income from self-employment or a business.
 - Quarterly IRS report.
 - If net income is negative, the reported income from this source is \$0.
 - *Self-Certification of Undocumented Income* stating gross income of self-employed individual.

Types of Documentation

- **Federal Income Tax Statement**
 - W-2, 1040, or 1099
 - In this case:
 - Use LINE 22 of Form 1040.
 - If Federal income tax return does not report income for all household members, then they must submit their tax returns or other income documentation.

Unacceptable Forms of Documentation

- Bank statements NOT valid (no Gross amounts listed)
- Copies of Pay Checks (does not show Gross – we need the stub)

Fixed Income

- Retirement and Pension Income
 - Statements from administering entity showing gross annual amount or periodic payments.
 - Retirement or pension check stub showing gross amount.
 - Tax Statement.

Fixed Income (Continued)

- Social Security (including SSI)
 - Award letter reflecting current benefit, typically issued once a year.
 - Correspondence showing gross amounts received within the last 6 months.
 - Social Security check stub showing gross amount.

Fixed Income (Continued)

- Funds received on behalf of a minor are considered income (e.g. foster care payments and Social Security).
- Alimony
 - Documents showing gross award amount.
 - Alimony check stub showing gross amount.
- Unemployment
 - Award letter or other correspondence showing gross amounts received.
 - Unemployment check stub showing gross amount.

Fixed Income (Continued)

- Annuity
 - Annual income earned from annuity (not total value of annuity).
- Temporary Assistance for Needy Families (TANF) and Other Public Assistance
 - Award letter or other correspondence showing gross amounts received within the last 6 months.
 - Public assistance received by an adult member of household on behalf of a minor is considered a source of income – includes foster care and Social Security.

Calculating Income Examples

- Using Charleston, WV HUD Metro Income Limits for 2010

HH% of FMR	1 person	2 person	3 person	4 person	5 person	6 person	7 person	8 person
50%	18,450	21,050	23,700	26,300	28,450	30,550	32,650	34,750
120%	44,280	50,520	56,880	63,120	68,280	73,320	78,360	83,400

NSP/HOME Rent Limits

Rent Limit	Eff.	1 BR	2BR	3BR	4BR	5BR	6BR
Low HOME	466	505	606	700	781	861	943
High HOME	468	512	639	815	838	964	1089

**Charleston Utility Allowance for a Single Family Home is approx. \$102; for a typical garden, walk-up or townhouse rental the Utility Allowance is approx. \$90. For the purpose of these examples the assumption was made that tenant pays for heat & electricity. (Determined from HUD's *2010 Allowances for Tenant-Furnished Utilities and Other Services*) provided by the Charleston Housing Authority.

Martinez Household

- **Scenario:**
- Bob & Betty Martinez have four children and have applied to be a homebuyer. Mr. Martinez's job pays \$15.25 per hour. Ms. Martinez is a part-time waitress (20 hours a week, 50 weeks a year) making \$7.15 per hour. She also has tips of \$2,200 per year. Their 13 year-old daughter, Maria, babysits, earning \$100 a month. Their 16 year-old son, Scott, earns \$2,000 from his part-time job. Daughter Angela, age 19, is a full-time student at the local community college and receives \$350 monthly for student financial assistance. Son, Jorge, age 21, is a full-time student living at home, who works at the local grocery store – he makes 12,000 a year.

Calculation: Martinez Household

Mr. Martinez: $\$15.25 \times 2080 =$	\$31,720
Mrs. Martinez: $\$7.15 \times 20 = \$143.00 \times 50 = \$7,150 + \$2,200 =$	9,493
Maria	0
Scott:	0
Angela:	0
Jorge:	<u>480</u>
Total:	\$41,692

Young Family

- **Scenario:**

Erica Young and her husband have five children and make \$45,000 per year in wages. They want to rent a newly renovated 4 bedroom townhouse. Mr. Young's pay stubs show that over the last 6 months he has earned \$500.00 in overtime. The application shows that they have an average interest bearing checking account balance of \$870 that has earned \$23. They also have mutual funds with a cash value balance of \$15,000 that has earned \$818 in interest. Since the total value of these assets is greater than \$5,000, per the Part 5 definition, the HUD Passbook Rate must be used to calculate the imputed income from all assets combined.

Calculation: Young Family

- In the Young's case, $\$15,870 \times .05 = \793.50 . The actual income earned ($\$818$) is greater, so that amount must be used in the calculation of annual income.

Mr. Young	\$45,000
+ Overtime: $\$500 \div 6 = \$83.34 \times 12 =$	1,000
Mrs. Young's income from assets	<u>818</u>
	\$46,818

Qualifies for Rent at \$ _____

Addams Family

- **Scenario:**

Joe Addams works for a construction company and earned \$25,000 in wages last year (2009). He has a wife and two children. Mr. Addams is currently unemployed and has earned \$8,000 in unemployment and doing odd-jobs. He is receiving unemployment benefits at \$600 per month. His wife has a job and makes \$7.50 per hour. She averages 35 hours per week, 52 weeks a year. Their son, Mike, age 26, lives at home, and works full-time earning \$11.00 per hour. Mr. Addams has a job interview next week and hopes to get a construction job that pays \$30,000 per year. The Addams' are hoping to purchase a home.

Calculation: Addams Family

Mr. Addams:	$\$12,000 + \600 (2 mos. Unemployment) =	\$ 8,000
Mrs. Addams:	$\$7.50 \times 35$ hours = $\$262.50 \times 52 =$	13,650
Mike:	$\$11.00 \times 2080 =$	<u>22,880</u>
		\$44,530

Smith Household

- **Scenario:**

Martha Smith has three kids. She works as a seasonal landscaper, making \$10.00 per hour. She typically works 7 1/2 months of the year and does not work in the off season. Ms. Smith also disclosed that she receives child support of \$500 per month and receives TANF Assistance for each child at \$250 per month. Ms. Smith wants to rent a 3 bedroom apartment for herself and her children. She states that her child support is sporadic.

Calculation: Smith Household

Ms. Smith: \$10.00 x 40 (hrs. per week) = \$400 x 30 wks =	\$ 12,000
Child Support = \$500.00 x 12 =	7,200
TANF Assistance = \$250 per child x 3 = \$750 x 12 =	<u>9,000</u>
	\$28,200

Questions

- Thanks for participating – Good Luck!!
- Questions not already covered?