Income & Asset Certification

Summary

Household income is the gross amount (before any taxes or deductions) of wages and salaries, overtime pay, commissions, fees, tips, bonuses, and other compensation of all the adults of the household, as well as the gross amount of all unearned income from all members of the household. Household income also includes income from assets, from all members of the household. The income used for tax credit purposes is the current and anticipated income for the 12 months following the signing of the lease. All current sources of income must be verified at initial occupancy. Income and assets may need to be annually recertified thereafter depending on the recertification rules that apply to the property.

Income and assets are to be calculated for the Low Income Housing Tax Credit Program in a manner consistent with determinations of income under the Section 8 program. Section 8 program regulations refer to 24 CFR (Code of Federal Regulations) Part 5 to define what types of income and assets are to be counted. 24 CFR Part 5 was updated by HUD's Housing Opportunity Through Modernization Act of 2016 (HOTMA). HUD released HOTMA implementation guidance, which affects both income and asset definitions as well as how income/assets are calculated and verified, in 2023.

For a detailed list of all currently included and excluded types of income and assets that are applicable to the LIHTC program, please review federal regulations at 24 CFR Part 5.100, Part 5.603 and Part 5.609.

Authority:

IRC Section 42(d)(2)(B)
IRC Section 42(g)(4)
Treasury Regulations, Section 1.42-5(b)(1)(vii)
24 CFR Part 5 (5.100, 5.603, 5.609)

HUD Occupancy Handbook 4350.3, Chapter 5

Chapter 5 (Sections 1 and 3) of the **HUD Occupancy Handbook 4350.3** is used as a guide to determine annual gross household income for the LIHTC program. With the implementation of HOTMA, the current version of Chapter 5 of the HUD Occupancy Handbook 4350.3 should be used with caution, particularly when evaluating what income/assets to include or exclude. HUD plans to update this Handbook in the future.

For current guidance, refer to **HUD Notice H 2023-10/PIH 2023-07: Implementation Guidance: Sections 102 and 104 of HOTMA** document. A copy of this document is posted on our website below the link to Chapter 5 of the Commission's **Tax Credit Compliance Procedures Manual**.

Income – General Information

Household Income is —

- Based on household size (household members do not have to be related)
- Based upon current income but calculated forward for the next 12 months. In some cases historical information may need to be used to determine income adequately, especially when a household member receives amounts that vary from pay period to pay period.
- Includes any wages to be received by any minor who will be turning 18 within the next 12 months. Begin counting the wages from the date that the person turns 18, through the remainder of the 12-month period.
- For 100% income- and rent-restricted properties **only**: Third-party certified at initial occupancy. Annual household self-certifications are permitted at **every** recertification.
- For tax credit properties **with market rate units**: Third-party certified at initial occupancy and **every year thereafter**.
- Based on income limits provided by HUD in effect at the time of the initial occupancy or recertification.
- Includes all exact income and asset amounts together. If gross amount includes cents, round up.
- Renting to a nonqualified household means the Unit is no longer considered affordable, credit cannot be claimed for the Unit, and recapture of credit is triggered.

For purposes of this Chapter, the term "management" refers to Owners of Commission-financed LIHTC properties as well as Owners' designated property management and/or compliance consultant agents.

Verification

Technically, the IRS' directive to calculate income and assets consistent with Section 8 methodology does not include the requirement that income and assets be **verified** consistent with Section 8.

However, one of the primary aims of HOTMA is to create greater consistency among federal housing programs regarding how income/assets are counted and verified. Moreover, the federal Office of Management and Budget (OMB) has recommended that federal housing programs modernize document requirements to reduce the burden on families accessing housing assistance.*

Verification (Continued)

To be in alignment with both of these goals, the Commission is adopting a modified version of HOTMA's income/asset verification hierarchy**.

Income and assets should be verified in the following order of acceptability, see following pages for more details about verification:

Level	Verification Technique	Ranking	Examples/Notes
5	Upfront Income Verification	Highest	The Work Number for Everyone WA State DSHS Benefits Verification System Other income and/or asset verification websites accessible by management (does NOT include EIV)
4	Written, third-party verification from source (as provided by household)	High	Paycheck stubs (minimum 2 current and consecutive) Social Security Administration benefits statements Public assistance/child support benefits statements Filed income tax returns (for self-employment, seasonal work)
3	Written, third-party verification form completed by source	Medium	Use only if Level 5 or Level 4 verification is unavailable or reveals discrepancies. Example would be having an employer fill out WSHFC's *Employment Verification* form.
2	Oral Third-Party Verification	Medium	Use only if Level 5, Level 4 and Level 3 verification is unavailable or reveals discrepancies. Use WSHFC's *Clarification by Telephone* form or similar to verify and/or clarify information.
1	Self-Certification	Low	Use as last resort when unable to obtain Levels 5-2 verification (manager must document or explain). May be used as highest form of verification when a family reports zero income and/or reports net family assets under $50,000.

*OMB Memo M-22-10, Improving Access to Public Benefits Programs Through the Paperwork Reduction Act

**Adapted from Table J2: Verification Hierarchy from HUD Notice H 2023-10/PIH 2023-7. Note: Level 6 EIV has been removed from the chart because federal regulations prohibit use of EIV to verify income for the LIHTC program.

General Verification and Calculation Guidance

Verification documents may not be older than 120 days prior to the certification effective date. If verification has aged past 120 days, the aged verification is rendered invalid and new documents must be obtained.

- For fixed-income sources, a statement dated within the most current benefit year is acceptable verification.

When using historical information to calculate income, managers should not use more than the previous 12 months' worth of income history to calculate gross annual income. The only exception to this would be if using a tax return to verify income.

As a best practice, management companies should implement the use of up-front, point-in-time electronic data sources to verify tenant income and assets. Examples of such sites include the Work Number for Everyone, VeriFast, Confirmation.com, and WA State Department of Social and Health Services Benefits Verification System. Note that the Commission's mention of a particular data source is not a directive or endorsement to use only that source.

If management companies are not using up-front electronic data sources to verify income and assets, they must pursue verification in the order outlined in the chart above. This means that Level 4 is the next highest form of verification and should be pursued before going to the next level down in the chart. If management ends up verifying income or assets via Levels 3, 2 or 1, **they must include an explanation in the file for why Level 4 or 5 verification was not used.**

Management is expected to document for the Commission when they are only able to verify household income through the use of a Level 1 self-certification (other than when Level 1 is specifically allowed, see chart above). There should be evidence that management attempted to verify income via other Levels prior to turning to self-certification.

If management is verifying wage income using pay stubs, the property must obtain a <u>minimum</u> of **two current and consecutive paystubs** from the household member. Again, "current" means the pay stubs must be dated within 120 days prior to the certification effective date.

- When calculating income, all verified amounts should be converted to **annual** amounts.

- If a household receives very little income, their income fluctuates, or there is no reliable verification of current and expected income, it is permissible to use filed tax returns to estimate anticipated income. If verification indicates that a job has ended and no additional job is anticipated at the time of qualification, management may accept Level 1 verification to confirm reduction in income or absence of income.

- If a Resident is receiving a rent subsidy from a government rental source (e.g., Section 8 or Rural Housing), do not count the subsidy as income. Staff must obtain documentation verifying the Resident's rent portion and their subsidy portion and include this with the Resident's documentation. Generally, rent assistance from non-profits and faith communities is considered income. If the rental assistance is provided directly to the owner as a periodic subsidy tied to the project's funding, such a subsidy may not need to be counted, please contact the Commission for further guidance if needed.

General Verification and Calculation Guidance, continued

There is no need to notarize **any** form of verification, even a Level 1 self-certification.

We strongly encourage management to refrain from passing along costs of up-front verification to applicants so as not to create additional barriers to housing for low income people. If a cost must be passed on, we encourage management to only verify what is necessary and charge only a portion of their actual costs to applicants.

Additional guidance regarding verification of specific income sources is provided in the following sections under the noted income source.

Calculating Wage Income

To determine annual income for fulltime employment, multiply:

- **hourly** *wages by* **2080**
- **weekly** *wages by* **52**
- **bi-weekly** *wages by* **26**
- **semi-monthly** *wages by* **24**
- **monthly** *wages by* **12**

Use an annual wage without additional calculations. For example, if a teacher's verification indicates their wages are $30,000 a year, use $30,000 as the annual gross income - calculating whether the payment is made in 12 monthly installments, nine installments or some other payment schedule is not necessary.

Calculating Wages when Amounts Received are Variable

When calculating wages, if the verification indicates the amounts received are variable, management should calculate the income based on the average amount of wages received multiplied by number of applicable pay periods.

Example 1: Joe provides two consecutive paystubs that are dated within the last 120 days. The pay stubs indicate his pay frequency is monthly. One stub indicates Joe received a gross amount of $1,289.00. The other stub indicates Joe received a gross amount of $980.00. Add the two amounts together, divide by 2, and multiply that number by 12 to arrive at his annual gross income.

Example 2: Management obtains a Work Number for Everyone statement that shows the last two months of wages for Mary. The statement indicates Mary is paid bi-weekly. Her wages vary from pay period to pay period. Add all gross wage amounts received together. Divide the total by the number of payments noted in the statement. Then multiply the average wage amount by 26 to arrive at her annual gross income.

Year-to-Date

Neither IRS nor HUD regulations require or endorse using Year to Date (YTD) or highest-in-range hours in calculating income. Therefore the Commission no longer requires YTD calculations when determining annual wage income. As noted above, any variations in wage amounts received should be added together and divided by the number of amounts received to determine the periodic amount. The average amount should then be multiplied by the pay frequency to arrive at the household member's gross annual income.

Whether to Include Raises When Calculating Wages

If a resident discloses an imminent pay raise on the REA or the verification clearly indicates an imminent raise, this must be factored into the annual wage calculation.

Example of anticipated increase in hourly rate:

February 1	Certification Effective Date
$18.00 hour	Current Hourly Rate
$20.00 hour	New rate to be effective March 15

(40 hours per week x 52 weeks = 2080 hours per year)

Annual income is calculated as follows:

February 1 through March 15 = 6 weeks

6 weeks x 40 hours = 240 hours x $18.00 = $4,320.00

March 16 through January 31 = 46 weeks
46 weeks x 40 = 1840 hours x $20.00 = $36,800.00

Total Annual Income = $41,120.00

Management is not required to follow up on whether or not a pay raise is expected in the next 12 months if there is no indication on the REA of such or if the verification provided does not indicate an imminent raise.

Tips

If tip income is disclosed as a separate item in the wage verification, then it should be projected for the next 12 months. If no tip income is explicitly indicated in wage verification, it is not required to add any tip income to the annual wage calculation.

Temporary, Nonrecurring or Sporadic Income

Temporary income that will not be repeated beyond the 12 months after certification is considered nonrecurring and can be excluded from the household's gross annual income. This does not apply to unemployment benefits or other types of periodic payments that are received at regular intervals (e.g., quarterly, monthly, yearly) or that can be extended beyond the next 12 months.

Examples of temporary nonrecurring income are Census Bureau employment lasting no longer than 180 days; economic stimulus payments, and refundable tax credits. A more detailed list of nonrecurring income types are found at 24 CFR Part 5.609(b)(24). Additional examples and guidance on nonrecurring income can be found in the HUD HOTMA Notice H 2023-10/PIH 2023-7.

Seasonal, Independent, or Day Laborer Wage Income

If a household member works for many different employers, it may be easier to obtain their most recent tax return (or W-2s) rather than request pay stubs from all individual employers.

If a seasonal, independent contractor or day laborer does not file taxes, then current pay stubs must be used to determine income. If the household member is paid in cash, then they may complete a self-certification of their wages.

Self-Employment Income Verification

When determining income from a business, management must include salaries paid to adult family members, net income from the business, and other cash or assets withdrawn by any family member—except if the withdrawal is the reimbursement of cash or assets the family invested in the business. Management can use the *Self-Employment Worksheet* to assist in calculating self-employment income.

When computing net income:

Do <u>NOT</u> deduct principal payments on loans, expenses for business expansion, or outlays for capital improvements;

Do NOT deduct depletion or depreciation/sec. 179 expenses (lines 12 and 13 on Schedule C);

As long as a Unit is the household's primary residence, they may use a portion of the Unit as their principle place of business, and claim associated expenses as tax deductions.

Management must use the verification documents below to estimate income for the next 12 months for self-employed household members:

1. Signed copy of individual federal income tax return (1040) including all schedules and attachments for the following:

- Schedule C for Small Business
- Schedule E for Rental Property Income
- Schedule F for Farm Income

Note: If a Resident is employed by a business owned by the Resident's family, Level 5 or Level 4 verification must be obtained.

2. Copy of Corporate or Partnership tax return (if applicable).
3. Audited or unaudited financial statement(s) of the business.
4. If Resident has been in business for less than one year, they should provide a Profit and Loss statement or business proforma.

If a Resident is engaged in a business partnership, staff must obtain a copy of the Partnership tax return as well as a copy of the Resident's personal tax return.

Note: All tax returns and related documents must be signed and dated by the taxpayer.

Self-Employment Income Verification (continued)

If an individual's only income is from self-employment, the net amount on Schedule C should be the same as the gross amount on the first page of the 1040. However, if the household had additional income, such as part-time wages and $20,000 in savings (so there was interest or dividend income), the net amount from Schedule C should be used. Then staff must obtain separate verification of the additional wages and savings funds.

On-Site Staff and Management Personnel

Property management staff living at the property, such as onsite managers, assistant managers, maintenance, or security personnel must be rent- and income- qualified unless they meet the requirements for a Common Area Unit as described in ***Chapter 2, Federal Requirements.***

Any rental concession given, or the fact that the on-site employee is *not* receiving a rental concession should be noted in the employee's wage verification.

If a resident is receiving a monthly resident service stipend of $200 or less, then the entire monthly amount is excluded from annual gross income. A resident service stipend is a modest amount received by a resident for performing a service for the owner, on a part-time basis, that enhances quality of life in the development.

Example: Resident Mary Smith lives at Happy Valley Apartments. She helps clean the common area and provides fresh flowers once a week. Happy Valley Apartments pays her $300 per month as a resident service stipend for her cleaning and the flowers. Because her stipend exceeds $200 per month, management must count the full $300 monthly stipend toward her annual gross income.

NON-WAGE INCOME

The following sources of non-wage income must be included when determining annual income. Note that the non-wage income of **all** household members, including minors, is always counted in its entirety, unless the specific source of non-wage income is explicitly excluded in 24 CFR Part 5.609.

Social Security, Supplemental Security Income (SSI)

Include the gross amount (before deductions for Medicare, etc.) of periodic Social Security payments. This includes payments received by adults on behalf of minors or by minors for their own support. Note that Social Security Administration applies a Cost of Living Adjustment (COLA) increase to benefits once per year, typically by December 1st to be effective in the following calendar year.

Social Security, Supplemental Security Income (SSI) (continued)

To verify SSA/SSI/SSDI income, one of the following two methods will be acceptable:

- Benefits verified via a state benefits verification system or other up-front verification system.
- Copy of current year award or benefit statement. This statement is issued when benefit commences or when a change in the benefit occurs, such as a cost-of-living raise.
- A household member can also print out a verification at the time of their certification interview by using the My Social Security website.

Note: For guidance on including anticipated SSA/SSI benefits please review the ***Tax Credit Compliance FAQs*** on our website

Alimony and Child Support

Any alimony or child support received by a Resident must be included when determining income.

Note: Child support **paid by** a resident is never deducted from their annual income.

Acceptable verification documents:

- Statement from the Office of Support Enforcement showing support amounts paid.
- A written self-certification from the person paying the support (when support agreement is informal and not established by a divorce decree or settlement agreement).
- A copy of the latest support check.
- Resident’s written self-certification of amount received.

In many cases, child support has been ordered but is not paid. Only the amount received should be counted. If payments are not consistent, management should add up what was received in the previous 12 months. This would include any back payments as long as there are still sufficient arrears to be collected.

Foster Adults/Child Income

Do not include ANY income received by foster adults or foster children. Do **not** include any state foster care payments received by the household for their care of a foster child/adult.

Public Assistance Income

The gross amount of public assistance received is considered income. The amount of any housing assistance payments made directly to an owner to subsidize rent (such as HAP payments made by a public housing authority) should not be included as income.

Documentation Required:

A statement from the Department of Social and Health Services is the preferred type of verification. The statement should address the type and amount of assistance the family is currently receiving. Management may use the Commission's *Public Assistance Verification* form to document this income if necessary.

Unemployment, Worker's Compensation, Severance Pay

Include payments in lieu of earnings, such as unemployment, and severance pay. Also include any payments that will begin during the next 12 months.

Acceptable verification:
- Statement from Employment Security showing payment dates and amounts.
- The Commission's completed *Unemployment Benefits Verification Request* form.

Note that worker's compensation payments (in Washington State, they're known as L&I payments) **are exempt from annual gross income**.

Management **must** calculate unemployment benefits for the next twelve months, regardless of documentation that suggests benefits will end in less than twelve months. The only exception to this is when unemployment benefits are only earned for a portion of the year because the Resident is otherwise receiving wages for the remainder of the year (e.g., teacher only earns unemployment in the summer months, seasonal worker only earns unemployment for December through February). For more information, please see HUD Occupancy Handbook 4350.3, Chapter 5-Section 1 or HUD HOTMA Notice H 2023-10/PIH 2023-7.

Military Pay

All of the following entitlements must be used to determine total income for military personnel (Active Duty and Reserves):

- Base Pay
- BAH (Basic Allowance for Housing – include in gross income **except** for military in certain counties, a list of which can be found on our website under the link to the Military Pay Verification form)
- BAS (Basic Allowance for Subsistence; i.e., food)
- Family Separation Allowance.
- CA (Clothing Allowance)
- FDP (Foreign Duty Pay)

Also include additional pay for special assignments such as:

- sea duty
- flight duty
- submarine duty

And pay for specialty fields such as:

- explosives
- jumping

The following sources of military income do ***not*** need to be included when determining annual income:

- One-time payments such as a re-enlistment bonus. (This should be treated as an asset.)
- "Hostile Fire" pay. "Hostile Fire" is defined as combat in a hostile fire zone. The special pay to a family member serving in the Armed Forces who is exposed to hostile fire (e.g., in the past, special pay included Operation Desert Storm) is excluded.

Acceptable verification:
A copy of the service member's recent Leave and Earnings Statement (known as an "L.E.S.") or the Commission's completed *Military Pay Verification* form. If an L.E.S statement is used, add the applicable annual clothing allowance.

There may be times when the L.E.S. will not show all entitlements or may show entitlements such as the BAH for a different locality. If this is the case, management should contact the Base Finance Officer to verify all income.

Military Pay (continued)

At some properties BAH may be excluded from income. Please review the ***Tax Credit Compliance FAQs*** on our website for further information.

Additional HUD Guidance:
Owners are encouraged to be as lenient as is responsibly possible to support households where persons are called to active duty. This may include allowing a temporary guardian to move into the unit to care for dependents – income of such a person would be excluded from annual income.

Pensions, Veteran's & other Periodic Benefits

Include periodic distributions from insurance policies, pensions, retirement accounts, disability or death benefits, and other similar types of periodic benefits.

Pension Funds Paid to a Former Spouse

Federal government pension funds paid directly to Resident's former spouse pursuant to the terms of a court decree of divorce, annulment, or legal separation are **excluded** from annual income. The state court has, in the settlement of the parties' marital assets, determined the extent to which each party shares in the ownership of the pension. That portion of the pension that is ordered by the court (and authorized by the Office of Personnel Management (OPM), to be paid to the Resident's former spouse is no longer an asset of the applicant/Resident and therefore is not counted as income.

However, any pension funds authorized by OPM, pursuant to a court order, to be paid to the former spouse of a Federal government employee is counted as income for a Resident receiving such funds.

VA Disability Benefits - General

Deferred disability payments from the Veterans Administration, whether received monthly or in lump sums, are **excluded** from income. However, this does not apply to pension or regular, non-deferred disability payments.

VA Disability Benefits for **HUD-VASH Recipients**

NEW October 2024: The IRS recently published Revenue Procedure 2024-38 which excludes Veterans Affairs (VA) service-connected disability benefits when determining eligibility **for those individuals receiving HUD-VASH vouchers.** This exclusion is effective for income determinations performed on or after October 24, 2024.

See our *Tax Credit Compliance FAQs* for additional guidance on VA Disability Benefits received by VASH voucher holders.

VA Aid & Attendance Payments

Payments to veterans in need of regular aid and attendance are **excluded** from annual income. This income exclusion applies only to veterans in need of regular aid and attendance and not to other beneficiaries of the payments, such as a surviving spouse.

Management should carefully review VA income verification because many types of VA income, including the Veterans Pension and the VA Survivors Pension, are included in annual income. For more detailed information on which types of VA income are excluded, please review the list of income exclusions at 24 CFR Part 5.609.

Annuities

An annuity is a contract sold by an insurance company designed to provide payments, usually to a retired person, at specified intervals. Annuities may be counted as either income or as an asset.

When to count as income:

- The insurance company managing the annuity indicates the household member is expected to receive **regular, periodic payments** from the annuity;

When to count as an asset:

- Count the annuity as an asset IF the household member has the right to withdraw the balance of the annuity at any time (even if there is a penalty incurred to do this).

- Remember to obtain the cash value of the annuity by subtracting from the current value any fees/penalties involved in withdrawing the entire balance.
- Management should obtain a copy of the household member's benefits letter, quarterly statement, etc. If those are not available, management may use the Commission's *Annuity or Stock Verification* form to verify this income.

On-Going Monetary or In-kind Gifts

Annual income includes any **recurring** monetary contributions or in-kind gifts regularly received from persons not living in the unit. This includes rent, utility payments and other payments (insurance, car, cellphone) regularly paid on behalf of the household. Note that in-kind donations made by a food bank or similar organization are not counted as income.

Verification of **recurring** gifts may be verified using either one of the following methods:

- A written self-certification signed and dated by the person providing the assistance, stating the purpose, dates, and value of the monetary gifts.

- A written self-certification signed and dated by the Resident stating the purpose, dates, and value of the gifts. Use the Commission's *Gift Affidavit* form as necessary.

Adoption Assistance Payments

If a household receives adoption assistance payments, count only the first $480 (per child). The remainder of the assistance is excluded.

Note that the $480 is subject to HUD's annual inflationary adjustments and could change from year to year. Please check HUD's "HUDUser.gov" website every August to determine if this exclusion amount will be revised in the following calendar year.

Fulltime Students - Income

Non-wage Income

The **non-wage** (unearned) income of **any** student in the Household **is counted in its entirety.**

Wage Income

When fulltime students 18 years of age or older are dependents, only a small amount of their earned income will be counted. Count earned income up to a maximum of $480 per year for fulltime students, age 18 or older, who are not the head of the family, spouse, or co-head. If the annual income is less than $480, count all the income. If the annual income exceeds $480, exclude the amount exceeding $480.

Note that the $480 is subject to HUD's annual inflationary adjustments and could change from year to year. Please check HUD's "HUDUser.gov" website every August to determine if this exclusion amount will be updated in the following calendar year.

Student Financial Assistance

Student Financial Assistance

HOTMA has changed how to calculate Student Financial Assistance (SFA) for household members who are full-time or part-time students. The rules differ slightly depending on whether or not the household receives Section 8 rental subsidy (project-based or voucher).

Student Financial Assistance (Continued)

NON-SECTION 8 HOUSEHOLDS

For non-Section 8 households with student household members receiving SFA, management must:

1. Determine which types of SFA being received are covered under the Higher Education Act of 1965 (HEA)
2. Determine which types of SFA being received are NOT covered under the Higher Education Act of 1965
3. Determine the total amount of education-related expenses (i.e., “covered costs”) the student is responsible to pay for

The first step is to subtract the HEA-covered assistance from the total covered costs. If there are covered costs left over after subtracting HEA assistance, then management must subtract the remaining covered costs from the non-HEA assistance. If there is assistance left over, **that assistance must be added to the household’s gross annual income**.

If **there is no SFA left over** (i.e., the final amount is zero or a negative number) after having accounted for all covered costs, then no assistance is added to the household’s gross annual income.

SECTION 8 HOUSEHOLDS

If a household receives Section 8 assistance (either project-based or Housing Choice Voucher), management must first determine if the student household member meets one of the Section 8 exemptions:

- Is the student household member a dependent of the head or co-head and living with them in the LIHTC unit?
  OR
- Is the student household member more than 23 years old with dependent children in the unit?

If the student household member meets one of the above criteria, **then the student’s SFA is calculated according to the rules for non-Section 8 households, above.**

If the student household member does NOT meet one of the above exceptions, then management counts SFA according to previous rules. Management subtracts the total amount of education-related expenses (including tuition, books, fees) from the total amount of student financial assistance being received. Whatever is left over is counted toward the household’s gross annual income.

“Student Financial Assistance” includes amounts received under the HEA of 1965, government grants or scholarships, grants or scholarships from

Student Financial Assistance (Continued)

business entities, or from a school. It also includes any assistance paid directly to the student or to the educational institution on the student's behalf. Work study or teaching fellowships are not considered student financial assistance.

Any monetary school-related assistance provided to the student household member by individuals outside the household (like a relative, faith community, civic organization, etc.) is counted as student financial assistance and needs to be included as a form of non-HEA student financial assistance. The only exception to this would be money provided to the student as a one-time gift. Gifts are not counted as student financial assistance.

Review **HUD Notice H 2023-10/PIH 2023-07** for additional guidance, a list of which types of student financial assistance are covered, and examples of how to count student financial assistance.

Authority:

24 CFR 5.609(b)(9)
HUD Notice H 2023-10/PIH 2023-07

ASSETS

Annual income includes actual income derived from any assets to which family members **have access**. HOTMA has updated asset exclusions as well as methods of calculating asset income. For additional guidance, please review **HUD HOTMA Notice H 2023-10/PIH 2023-7**.

> **NOTE:** HOTMA restricts certain households from receiving housing assistance if their net family assets exceed $100,000 or if the household owns real property suitable for the family to live in.
>
> **This rule applies ONLY to households applying for public housing or Housing Choice Vouchers. This rule does NOT apply to LIHTC housing.** For purposes of LIHTC qualification, there is no asset ceiling and households are allowed to own real property.

Types of Assets

The following pages discuss different types of assets with descriptions of the preferred documentation to determine the asset value. A full list of includable and excludable assets is outlined in 24 CFR Part 5.603(b) as well as in HUD Notice H 2023-10/PIH 2023-7. In situations where management has consulted federal regulations or guidance and is still unsure whether to include something as an asset, they should contact the project's assigned Portfolio Analyst for assistance.

Inflationary Adjustments

In HUD Notice H 2023-10/PIH 2023-7, HUD states that certain amounts used to make income and asset determinations will be adjusted by inflationary factors on an annual basis. HUD will publish revised adjustments for the next calendar year every August. The revised amounts will be effective on January 1 of the following year.

Asset-related items which are affected by these annual adjustments include the **threshold for net family assets** (the $50,000 asset threshold referred to throughout this Chapter) and the **Passbook Savings Rate**.

> **Management is responsible for reviewing and implementing the latest HUD inflationary adjustments annually. Inflationary adjustment information is available on the "HUDUser.gov" website.**

Income From Assets and Whether to Verify

The chart below maps out what type of asset income is included in gross annual income and when verification is necessary:

Household Asset Scenario (Net Family Assets)	ACTUAL Income from Assets	IMPUTED Income from Assets	What is Included in Gross Annual Income?	Third-Party Verification of Assets Required?
Assets of $50,000** or less	Included	N/A	Actual income only	No
Assets **exceed** $50K and **all** assets produce income	Included	N/A	Actual income only	YES
Assets **exceed** $50K but **none** of the assets produce income*	N/A	Calculate imputed income for each asset using HUD's current passbook rate	Imputed income only	YES
Assets **exceed** $50K and **only some of the** assets produce income*	Included for any assets that produce actual income	Included for any remaining assets that do not produce income	Actual income for each income-producing asset plus the imputed income from each non-income producing asset	YES

*Note that bank accounts, i.e., checking and savings accounts, are considered by HUD to be income-generating assets, even if the amount of income generated is zero. Therefore, management never has to impute income from a bank account. The actual income from the account will either be the income generated by the interest rate, or the actual income will be zero, if the account has no interest rate.

**Net family asset threshold will be adjusted annually by HUD

Net Family Assets Less Than $50,000

Management is **not** required to obtain verification of assets for households which self-certify that their combined net family assets are below $50,000.

- Management may elect to verify assets if there are other facts/circumstances in the household's situation which indicate a conflict with their *Resident Eligibility Application* or which create a question about their eligibility.

Even if net family assets equal less than $50,000 (as annually adjusted by HUD for inflation), any **actual income** generated by those assets must always be added to the household's gross annual income.

As long as net family assets are less than $50,000, management can include any self-certified actual asset income in the household's annual gross income without verifying the assets in question.

No subsequent verification of assets needs to take place at an annual recertification except under the following circumstances:

- LIHTC property is a mixed-income property (affordable with market rate units) **AND**
- Household reports $50,000 or more in net family assets at any recertification

Jointly Owned Assets

For assets jointly owned by a household member and one or more individuals outside the household, management must include the total value of the asset in the calculation of net family assets (unless the asset type is specifically excluded under 24 CFR Part 5.609).

If the household can produce documentation that clearly demonstrates that the household member has only partial access to the asset, then only the portion of the asset accessible to the household member should be counted.

If the household can produce documentation that clearly demonstrates that the household member has no access to the asset, or that they cannot dispose of their portion of the asset without the consent of another outside individual who refuses to allow the disposal, then management does not have to include the asset in the household's gross annual income.

If a household member is only a beneficiary of the asset, i.e., they only gain access to an asset upon the death of the asset's owner, then management does not have to count the asset toward the household's gross annual income. The household must be able to produce documentation that clearly confirms this scenario.

Regular Checking and Savings Accounts

If net family assets are $50,000 or less and checking/savings accounts have been disclosed, management is **not** required to verify balances in bank accounts.

If net family assets **exceed** $50,000 **and** checking or savings accounts have been disclosed, only current balances need to be verified. It is no longer necessary to verify the last six months' of checking account balances.

To verify bank accounts, use up-front verification sources or obtain the most current bank account statement (dated within 120 days of certification effective date). Even if net family assets are less than $50,000, management is entitled to request bank account verification if the household's declared income/assets or other provided verification reveal a discrepancy of some kind.

If management has obtained bank account verification, and the statement appears to include deposits that are not consistent with what the household reported on their REA, management should ask for additional information to clarify the income discrepancy.

Again, it is important to note that HUD considers bank accounts to be income-generating assets, even if the income generated is "0" (zero). Therefore, management will never impute income from a bank account.

Stocks, Bonds, Treasury Bills, Certificates of Deposit, Money Market Funds

The primary income from these types of assets is interest and dividends. Income can also be gained from the sale of either stocks or bonds for a profit.

Acceptable verification:

Broker's quarterly statements showing value of stocks or bonds, or quotes from a stockbroker as to net amount family or household would receive if they liquidated securities, less any penalties/fees for early withdrawal of funds. If necessary, management can also use the Commission's *Annuity or Stock Verification* form to verify stocks.

Trusts

A trust is generally considered a legal arrangement in which one party (the grantor) holds an asset for the benefit of another (the beneficiary). A trust can contain cash or other liquid assets or real or non-necessary personal property that could be turned into cash. Trust assets are typically transferred to the beneficiary upon the death of the grantor. There are two types of trusts, revocable and non- revocable (irrevocable trusts).

Whether the value of a trust counts as a net family asset and whether distributions from the trust count towards gross annual income depends on the following three factors:

- Whether the trust is controlled by someone in the household
- Whether distributions are made from the trust's principal; and
- The purpose of the distribution (if the distribution is made from income generated by the principal)

Control of the Trust

The value of any trust that is not controlled by someone in the household is excluded from net family assets.

If a member of the household is a beneficiary of a trust, but the trust's **grantor** is **not** a member of the household, the value of the trust is not included in the household's net family assets.

A revocable trust that is controlled by the household (i.e., the trust **grantor** is a member of the household), **is** included in net family assets. Actual income earned on such a trust is counted toward annual gross income.

If a revocable trust controlled by the household **does not generate income** (e.g., land being held in a trust that is not being rented out) **and the value exceeds $50,000**, management will need to calculate imputed income on the value of the trust and add the imputed income to gross annual income.

Distributions

If a revocable trust **is** counted toward net family assets, then distributions from the trust **are not** considered income to the household.

If a trust **is not** counted toward net family assets, then:

- All distributions from the trust's **principal** are excluded from gross income
- Distributions of income **earned by** the trust (i.e., interest, dividends, realized gains, or other earnings on the trust's principal), **are** included in gross income UNLESS the distribution is used to pay for the health and medical expenses for a minor

For additional guidance, see Table F2 on page 66 of **HUD Notice H/PIH 2023-10/2023-27.**

Individual Retirement, Keogh, and 401(k) Accounts

Individual retirement accounts, Keogh, 401(K), other employer retirement plans, retirement plans for self-employed individuals and any other IRS-recognized retirement plans **are not considered** countable assets.

That said, if a household member is receiving **periodic payments** from any such account/plan, the periodic payments are counted as income.

Real Property Owned by Household

Real property (i.e., a home, a condo, a piece of land) is always considered an asset. Determine the cash value of real property by subtracting the following from the current market value of all properties:

- any unpaid balance on any loans secured by the property AND
- any reasonable costs incurred to sell the asset—penalties, broker fees, etc.

Use the Commission's *Real Estate Evaluation Worksheet* to calculate the cash value of real estate owned by an Applicant/Resident.

Rental income is considered actual income from the asset and must always be included in the household's gross annual income calculation. If the household receives rental income from their property, request the following:

- IRS Form 1040 with Schedule E (Rental Income); **OR**
- Lessee's written statement identifying monthly payments due the Resident or copy of the Lease Agreement, and Resident's affidavit as to net income realized after mortgage interest, taxes, insurance and other rental expenses.

Income from real property must always be included in net family assets regardless of property's cash value. If the property doesn't generate rental income, management must determine the **imputed** value of the real property using HUD's applicable passbook rate.

Mortgage or Deed of Trust

Occasionally, when an individual sells a piece of real estate, the seller may loan money to the purchaser through a mortgage or deed of trust. This may be referred to as a "contract sale."

A mortgage or deed of trust held by a Household member is included as an asset. Payments on this type of asset are often received as one combined payment which includes interest and principal. The value of the asset is determined by calculating the unpaid principal as of the effective date of the certification. Each year this balance will decline as more principal is paid. The interest portion of the payment is counted as actual income from an asset.

Personal Property Held as an Investment (Non-Necessary Personal Property)

The imputed value of investment gems/jewelry, coin collections, antique cars, RV's, boats, etc., are only calculated when net family assets exceed $50,000. A household member's wedding ring and other personal jewelry are considered Necessary Personal Property and are NOT considered countable assets.

Examples of Necessary and Non-Necessary Personal Property (note this is NOT an exhaustive list)

Necessary Personal Property (Excluded from Net Family Assets)	**Non-Necessary Personal Property (INCLUDED in Net Family Assets)**
• Car(s)/vehicle(s) that a family relies on for transportation for personal or business use (e.g., bike, motorcycle, skateboard, scooter) • Furniture, carpets, linens, kitchenware • Common appliances • Common electronics (e.g., radio, television, DVD player, gaming system) • Clothing • Personal effects that are not luxury items (e.g., toys, books) • Wedding and engagement rings • Jewelry used in religious/cultural celebrations and ceremonies • Religious and cultural items • Medical equipment and supplies • Health care–related supplies • Musical instruments used by the family • Personal computers, phones, tablets, and related equipment • Professional tools of trade of the family, for example professional books • Educational materials and equipment used by the family, including equipment to accommodate persons with disabilities • Equipment used for exercising (e.g., treadmill, stationary bike, kayak, paddleboard, ski equipment)	• Bank accounts or other financial investments (e.g., checking account, savings account, stocks/bonds) • Online accounts such as Venmo, Cash App, Bitcoin, GoFundMe, Crypto currency, etc. • Cash on hand (i.e., money not kept in a bank account or online account of some kind) • Recreational boat/watercraft • Expensive jewelry without religious or cultural value, or which does not hold family significance • Collectables (e.g., coins/stamps) • Equipment/machinery that is not used to generate income for a business • Items such as gems/precious metals, antique cars, artwork, etc. • Recreational car/vehicle not needed for day-to- day transportation (campers, motorhomes, travel trailers, all-terrain vehicles/ATVs)

For a more detailed discussion of Necessary and Non-Necessary Personal Property, please review **HUD Notice H 2023-10/PIH 2023-7.**

Lump-Sum Receipts

For a more detailed discussion of what types of lump sum receipts are counted as assets and what are counted as income, please review **HUD Notice H 2023-10/PIH 2023-7.**

Determining Cash Value of an Asset

To obtain the cash value of an asset, management must calculate the amount the household would receive if the asset were converted to cash.

Cash value is the market value of the asset minus any loans secured by the asset, such as a mortgage on rental property, and less any reasonable costs that would be incurred in selling or converting the asset to cash.

Expenses which may be deducted include:

- Penalties for withdrawing funds before maturity.
- Broker/legal fees assessed to sell or convert the asset to cash.
- Settlement costs for real estate transactions.

For non-necessary personal property assets (like investment jewelry, coin collections, antique cars, Beanie Baby collections, etc.), enough information should be collected to determine the current cash value—the net amount the household would receive if the asset were converted to cash.

Disposal of Real Property (Either Building or Land)

If an applicant/ Resident has sold their home or other real property within the past two years, request:

- Copies of closing documents (*Closing Disclosure* form, formerly known as a HUD 1 Statement) showing the selling price, the distribution of the sales proceeds, and the net amount to the Resident.
- A statement from the Resident explaining what they did with the proceeds.

Assets Disposed of for Less than Fair Market Value

If an asset was disposed of for <u>less than fair market value</u>, the value of the asset must be counted for a two year period following its disposition. See ***Appendix N – HUD Handbook 4350.3*** for additional information on how to calculate assets disposed of in this manner.