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Tax Credit 101: Documenting Income

by Kelly Wakefield, Preferred Compliance Solutions

Obtaining paperwork to determine the income of a household may seem straightforward, but nuances can exist between housing finance agencies, syndicators and even the HUD Handbook 4350.3 and IRS 8823 Technical Guidebook interpretations. In a prior Back to Basics article on verifications, more explanation on these differences were discussed. With differing requirements, demonstrating due diligence is key.

In this article we will define whose income and assets are counted, how to document income and assets, and identify important considerations when doing so. Finally, we'll provide some practice examples so you can put yourself to the test.

Income is earned and unearned income from all household members over the age of 18, unearned income of minor children under the age of 18 and income from assets. The chart below summarizes for each household member whether income or assets should be counted.

Household Members	Employment Income	Other Income (including income from assets)
Head	✓	✓
Spouse	✓	✓
Co-Head	✓	✓
Other adult (including foster adult)	✓	✓
Dependents - Child under 18	⊘	✓
Full-time student over 18	See Note	✓
Foster child under 18	⊘	✓
Note: Earned income of a full-time student 18 years or older who is a dependent is excluded to the extent that it exceeds $480.		

Once we can ascertain whose income will be counted, the next step is determining what documentation to obtain. HUD Handbook 4350.3 Appendix 3 details what acceptable sources are for this. A modified version is seen below.

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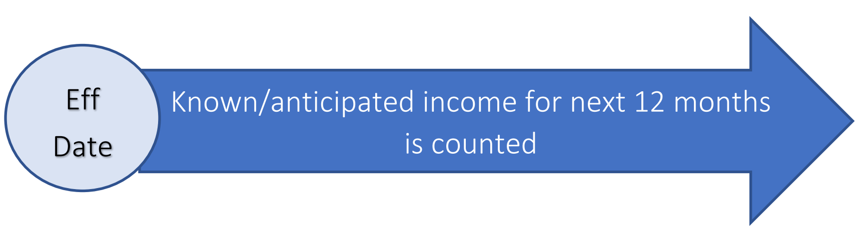
Acceptable Sources				Verification Tips
Third Party			Self-Declaration	
Written	Provided by Applicant	Oral		
Verification form completed by employer	W-2 Forms, if applicant has had same employer for at least two years and increases can be accurately projected Paycheck stubs or earning statements	Telephone or in-person contact with employer, specifying amount to be paid per pay period and length of pay period	Notarized statements or affidavits signed by applicant that describe amount and source of income	Always verify: • Frequency of gross pay • Anticipated increases in pay and effective dates • Overtime Require most recent four to six consecutive pay stubs; do not use check without stub.

Third-party sources are always best practice. Having a set policy and procedure of how income documentation will be obtained will help show your state monitoring agency and the IRS due diligence.

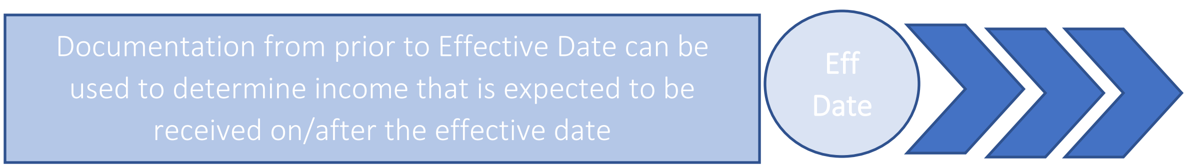
Once our policy is in place of the type of income verifications we will obtain, we then need to determine the timeframe of income we should be looking at. In order to be an income eligible household, we should be counting the "gross income (with no adjustments or deductions) the household anticipates it will receive in the 12-month period following the effective date of the income certification... If information is available on changes expected to occur during the year, that information is used to most accurately determine the anticipated income from all known sources during the year." This quote from the 8823 guidebook can be illustrated as below:



Typically, when documenting income, we use historical information that took place prior to the effective date. Because we don't have a crystal ball, this information from before the effective date can help us determine income that is known or anticipated to be received after the effective date.

Why does this matter? First, because we need to make sure in our forms and in our conversations with residents and applicants that we are asking not just about current circumstances, but what is expected to occur in the 12 months following move in.

Second, many documentation methods that are acceptable may not fully capture known or anticipated changes. When we examine the documentation with a forward-looking mindset of anticipating what is known or expected, it will impact the questions we ask and how we determine income. Sometimes it can be that income is now lower than it was previously; perhaps someone was full time and went to part time. That will not preclude them from being eligible, but the file should be clearly documented using third-party sources of why the anticipated income moving forward differs from what has taken place.



Let's look at some examples and ask ourselves some questions:

1. Lisa applies for your community in April with an anticipated move in date of June. At time of application, four to six consecutive paystubs were obtained that reflect she works for a shipping company and, though the older paystubs do not reflect overtime, the most current paystubs show large amounts of overtime worked each pay period. Lisa's household is income eligible when completing a four-to-six paystub average.
    a. Is our use of paystubs permitted? *Yes, four to six paystubs are an acceptable source.*
    b. Completing a paystub average shows the household is income eligible; is additional information needed? *The household is eligible completing a paystub average, but if we consider that we are anticipating what her income will be for the 12 months following a June effective date, additional information on the continued likelihood of the overtime in order to accurately determine what Lisa's income will be is needed. If working large amounts of overtime is now*

the new normal, a paystub average where we are including stubs without the overtime would not be an accurate average of what is expected moving forward.

2. An applicant moves in during the month of November receiving Social Security benefits of $1,100. Is anything additional needed? *Though the tenant moves in prior to the cost-of-living allowance (COLA) taking place in January, because the amount was released and the date of increase is known, the new rate with COLA should be pro-rated and counted for the remaining months of the 12-month term following January's increase.*

3. For the past six years, Chris has worked at the same store in the mall during the month of December as a second job. When he applies in August, he says he is not currently working there. What should be done? *The past six years of work history can be a good indicator of what is expected. Though he is not currently working at the mall, it should be asked if he will. Then, if it is known that he will move in during the 12 months following, that income should be counted.*

Here are some additional questions for practice:

1. Mike works at a grocery store and applies for your community in May. He provides consecutive paystubs with pay periods in February and March. All paystubs are within 120 days of his anticipated move-in date. The three older stubs reflect an hourly pay rate of $13 an hour, and the more recent three reflect an hourly rate of $17 an hour. Are additional questions or information needed?
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2. You obtain an employment verification via email directly from the employer. The employment verification reflects that, because they were short staffed, your applicant worked 15 hours of overtime a week the last three months, but they now are fully staffed and the applicant will no longer work more than one hour of overtime a week. How much overtime should be counted, and why?

3. A mother and her 16-year-old son move into your community. The mom receives $1,400 a month in veteran benefits and $100 weekly in child support. The son works 15 hours a week earning $12 an hour with no overtime, bonuses, tips, commissions or raises. What is the total household income, and why? *Hint: Look at the chart on page 1.*

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