Calculation Considerations When Documenting Income

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One of the critical parts to ensuring a household is eligible to occupy a tax credit unit is certifying that they are at or below the income limit threshold. More than ever before, we are seeing different types of employment and methods to calculate income. Anticipated income, gig employment or self-employment, seasonal employees and recurring contributions of monetary or non-monetary income are frequently seen, can be challenging to properly document, important to understand, and vital to include.

The 8823 Guidebook states that the tenant income certification is "based on the best information available at the time of the certification. It should represent the income the household anticipates it will receive in the 12-month period *following* the effective date." All forms and conversations with applicants should clearly address not just income currently received, but income that is anticipated to be received in the next 12 months. Known or announced pay or cost-of-living adjustment (COLA) increases, position changes, second jobs or commencement of benefits, such as child support or cash contributions, should be documented and added as part of the household's income.

Because occupancy is high and waitlists can be long, prior to having an applicant sign the tenant income certification (TIC) and taking possession of the unit, management should take care to clearly identify all sources of income and assets with the household and ensure no changes have taken place, or are anticipated, between filling out paperwork and moving in. Recertification is not the time you want to find out that they started a new high-paying job a day after move-in.

Uber, Lyft, Grubhub and Postmates are examples of gig employers who hire independent contractors instead of full-time employees. Any person who earns more than $400 must file for taxes, so let's discuss some options of how to easily document this type of income.

If the tenant is self-employed, request last year's full, signed tax return as well as information on when they became self-employed and what they anticipate earning in the next 12 months.

1. When counting self-employment we use the net income, not the gross. This is line 31 on a Schedule C.

2. When looking at the tax return, be sure any discrepancies are addressed in the file — e.g. marital status, additional household members, W2 wages, other income/assets, student credits.
3. The Schedule C for self-employment shows the type of business; does this match the business declared and anticipated? If the Schedule C shows “hairdresser” and they state they are an Uber driver, they might have two sources of income.
4. The Schedule C Line H reflects if the business was started during the year. If this is marked, that means that the income reflected may not be a full 12 months’ worth of income. In this case, the start date is needed and a calculation generated using the start date through Dec. 31 to determine what 12 months' worth of net income would be.
5. Look at the statement of what they anticipate earning in the next 12 months; does it differ greatly from their tax return? In general, the highest amount should be used, but additional questions or documentation may be needed on changes that occurred or are anticipated.

If the applicant has not yet filed taxes, don’t despair! Gig employers have gotten much better on providing systems for their contractors to access wage statements. These wage statements provide information on gross and net earnings, deductions, fees, expenses and tips. Weekly or monthly statements can be obtained and annualized, much as you would paystubs. Additional documentation on anticipated earnings from self-employment should still be obtained. Paystubs and tax returns reflect historical information. While that historical information can help us make projections about future anticipated earnings, always inquire about any expected differences.

Seasonal employment is another consideration to make. We see this often with educational employees or farmworkers. Typically, all income is annualized for 52 weeks; however, with detailed documentation on the number of work weeks, their income would be counted only for the weeks they are working. This information may come from published material on school schedules or growing seasons.

These employees may receive unemployment benefits, have other jobs or receive monetary contributions during the off-season. Applicants should detail what they do and how they anticipate paying bills when not working so all potential income is captured and counted.

For example, if an applicant was a paraprofessional who works 40 weeks during the school year and receives unemployment during the summer, the file should have documentation that they will work 40 weeks and receive unemployment only when not working. Their income would be

their paraprofessional income for 40 weeks and unemployment for 12 weeks. Likewise, if an applicant applies in the summer but every winter works part time at a ski resort, use documentation on the pay amount, hours and weeks worked from the employer, or previous pay history to project income.

Finally, look at recurring contributions in the form of monetary or non-monetary income. If received on a recurring basis, it should be counted.

Let's first discuss monetary income. More frequently, we are seeing this type of income when bank statements are provided that show multiple deposits from sources such as Venmo, PayPal, CashApp or Zelle. Any deposits beyond income documented should be explained. Reimbursement for a friend's portion of dinner or movie tickets is a reasonable explanation, but if payments are being received recurringly, that is income that should be counted.

Non-monetary income can sound confusing, but it follows the same guideline. Non-monetary income is gifts or contributions to the resident from someone not living in the unit and can include the payments of bills on behalf of the resident.

For example, if someone pays for your applicant's $80 phone bill each month, that $80 monthly would be counted as income. Car insurance, clothing, diapers and gas are other commonly seen goods or items that are given that would have a dollar value assigned and counted.

Note that the value of groceries, even if consistently provided, would not be counted. Households that have very low or zero income should provide information on how these types of bills are paid and goods are purchased to determine if additional income should be counted.

Tax credit compliance must continue to evolve as new industries, types of jobs and sources of assets change. Continually updating policies and procedures to ensure that forms and applicant interview methods are capturing current and anticipated circumstances will help maintain our communities are occupied by qualified households.

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