Identifying File Issues and the Appropriate Correction Prior to Year-End

One of the many important tasks in file compliance is identifying file issues before the state allocation agency finds them. Whether you have an established property with long-term staff or a newer development with staff new to the industry, file errors are to be expected – but there are simple ways to prepare and correct them, especially prior to year-end.

Not calculating a cost-of-living adjustment (COLA) is a common error found during year-end file reviews. COLAs are increases to benefit payments to maintain a certain standard of living. COLAs can affect pension benefits and Social Security payments, and can even be tied to employee contracts. Typically, COLAs are announced in the fourth quarter for the upcoming year and can easily be missed if not specifically verified.

For Social Security, the COLA is effective Jan. 1 and has had the same effective day since 1984. Social Security COLA increases can range from 0 to 3.6% (2012) annually, which can alter a household's income enough to make the household ineligible. For example, a single person applies on July 1 and has a verifiable annual Social Security income of $35,000. The current income limit for a single-person household is $35,500, so the applicant qualifies. The same applicant applies on Oct. 1 with the same verifiable income of $35,000. However, the Social Security Administration has announced a 2.3% COLA increase effective Jan. 1. The applicant's new income is $35,670*, which is over the income limit of $35,500. If the COLA was not calculated correctly, the community would have moved in an ineligible household and could have faced loss of credits if found during a state inspection.

It is also crucial to review any IRAs, Simple IRAs, SEP IRAs or retirement plans to ensure the applicant will not receive a required minimum distribution (RMD) An RMD is the minimum amount the account holder must withdraw from the account each year. Generally, for the accounts listed above, applicants reaching age 70½ would have to start taking withdrawals.

An applicant could receive two distributions in the same year if during the first year the applicant turns 70½, which results in a distribution being paid out in April and again in December for the following year. Not accounting for these distributions when screening a new applicant or recertifying an existing resident can cause ineligible households to occupy units or cause potential eligible residents to become ineligible.

It is always a good business practice to have annual file reviews to discover and correct any issues of noncompliance before Dec. 31. If an error is found and corrected prior to notice from the state allocation agency, then the owner has self-corrected and no additional notification is needed. Per the 8823-audit guide (3-2); noncompliance issues identified and corrected by the owner prior to notification of an upcoming compliance review or inspection by the state agency need not be reported.

End-of-year reporting also is an easily missed requirement. Owners must certify annually that for the previous 12-month period, the project has met the requirements outlined in Treasury Regulation section 1.42-5(c)(1). Among them: The owner must certify that the project is meeting the applicable minimum set-aside, there was not a change in applicable fraction, annual income certifications and documentation were obtained for each low-income tenant, and rents were restricted.

Setting up measures to ensure that the proper staff members are reminded of upcoming due dates is an easy way to ensure that they are aware of the deadline. Email reminders, calendar reminders and recurring notifications are cost-efficient and effective, and help the owner complete the certification accurately and on time.

Identifying issues and correcting them prior to year-end can assist in ensuring your development does not face any potential ineligible residents or delayed reporting. Adding effective administrative reminders and compliance oversight can assist in ensuring the development maintains consistent compliance requirements.

Dec. 31 isn't just a day to celebrate the end of the year – it is also a time to ensure all potential issues are corrected so the start of the New Year is worth celebrating!

Patricia Hensley is senior compliance manager for Bonner Carrington, a Texas-based developer. She is responsible for ensuring all properties are in compliance with the Low Income Housing Tax Credit, Tax Credit Assistance, Tax Credit Exchange, HOME, Housing Trust Fund and Tax Exempt Bond programs. Prior to joining Bonner Carrington, Hensley was a compliance monitor for the Texas Department of Housing and Community Affairs. She has 11 years' experience in the affordable housing industry and has earned the HCCP, the Certified Occupancy Specialist, Certified Professional of Occupancy and the Fair Housing Specialist designations.

*$35,000 / 12 = $2,917per month *2.3% = $67 increase monthly *10 months (Jan. 1 – Sept. 30) = $670 annually = Total annual income of $35,670