

# Determining Income/Part 5 Definition

Revised 8/9/2024

The City of Rockford Community & Economic Development Department programs require beneficiaries to have projected household income (income) at or below a program limit and/or a limit specified in an agreement. Projected household income is a snapshot of what the income is at a specific point in time calculated over a 12 month period. To assist in determining the income of a beneficiary using the Part 5 definition, use the following resources:

1. This document;
2. Chapters 1, 2, and 3 of the third edition of the [Technical Guide for Determining Income and Allowances for the HOME Program](#) dated January 2005;
3. Resources posted on the HUD Exchange at <https://www.hudexchange.info/incomecalculator/>.
4. City staff: Call, 779-348-7162, and ask for a Housing Rehabilitation Specialist. If questions are still unanswered, a City representative may request further guidance from HUD.

## Definitions:

1. *Applicant/tenant*: This includes all those who will be executing an agreement/lease.
2. *Asset*: In general, an asset is a cash or non-cash item that can be converted to cash.
3. *Cash Value*: An asset's cash value is the market value less reasonable expenses required to convert the asset to cash.
4. *Community Development Block Grant (CDBG)*: A financial resource made available through the Department of Housing and Urban Development that the City of Rockford uses to fund activities.
5. *HOME Investment Partnerships Program (HOME)*: A financial resource made available through the Department of Housing and Urban Development that the City of Rockford uses to fund activities.
6. *Income Verifier*: The person responsible for determining the income of an applicant/tenant is the income verifier.
7. *Market Value*: The market value is its dollar value on the open market.
8. *Passbook Savings Rate*: The Limits Sheet provided regularly by City staff discloses the latest passbook savings rate.
9. *Source Documentation*: Any income and/or asset documents used to determine the applicants/tenants household income is source documentation. This includes but is not limited to check stubs, deposit account statements, tax returns if self-employed, etc.
10. *Stale Date*: Income documents are only valid for a certain period; HOME funded activities stale date at 6 months while CDBG funded activities stale date at 12 months.

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### Income Calculator:

1. Use the income calculator (interactive tool) located at <https://www.hudexchange.info/incomecalculator/> to assist in determining and to document in the file that an applicant/tenant is income qualified.
  - a. Select appropriate funding source (HOME or CDBG)
2. Print the summary page to keep in the applicant/tenant file along with the items indicated below. Only the applicant/tenant signs the summary page along with the income verifier. It is not necessary to have all other household members 18 & older sign.
  - a. The most recent Limits Sheet, which includes the current income limits, provided regularly by City staff;
    - i. To qualify, the applicant/tenant's income must be at or below the income limit at the time of assistance (execution of agreement and/or lease).
    - ii. When Income stale dates, only the source documentation that has stale dated needs to be updated if there is a need to update income prior to executing an agreement/lease. However, some may choose to update all income & asset documentation.
    - iii. If the income limits decrease, making it appear the applicant/tenant no longer qualifies, after an applicant/tenant was income qualified and before the source documents stale dates, do not disqualify the applicant/tenant.
  - b. Source documentation

### Income:

Income verifiers must review at least two months of source documentation to determine income. In addition they must consider all known changes anticipated over the next 12 months (e.g. raises, cost of living).

Determining whose income to include:

1. Include only the household members listed on the application or Household Affidavit.

A Household Affidavit documents the household members when an application does not have a "Household Member" section. It also documents household member changes when they change after the time of application and prior to providing the assistance.

2. When a married applicant/tenant applies for assistance on his or her own because their spouse is not a household member, the applicant must provide proof of residency for the absent spouse. This may be a separately filed IRS tax return of the applicant or proof of residency for the absent spouse. Proof of residency for the City is the same as required by the State of Illinois for proof of residency when applying for a driver's license.

State of Illinois proof of residency link:

[https://www.ilsos.gov/publications/pdf\\_publications/dsd\\_x173.pdf](https://www.ilsos.gov/publications/pdf_publications/dsd_x173.pdf)

3. If a married applicant applies for assistance on his/her own because their spouse is incarcerated, do not include the spouse as a household member, or their income in the household income

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calculation, unless there is proof demonstrating that the spouse is due to be released from incarceration prior to the end of the term of affordability/loan.

4. Original household members claiming they are no longer a household member at the time of assistance must provide proof of residency as indicated in #2 above. The applicant would sign a Household Affidavit documenting the change in household members too.
5. Both ministry salary and housing allowance (sometimes called a parsonage allowance or a rental allowance) is counted as income as it falls under self-employment. This is a form of compensation for a service.

### Alimony & Child Support:

Document alimony and/or child support with a Divorce Decree and/or other legal documentation approved by the court.

If the household appears to be over income because the Divorce Decree and/or Court order discloses an amount higher than what is actually received, the applicant may provide the total received year to date (YTD). Project the annual support by dividing the YTD total by the number of weeks included in the YTD and then multiply that number by 52 weeks.

If a divorce decree is not required due to Homestead rights; i.e. the applicant was clearly single at the time of purchase and had not been remarried since, the applicant may sign an [Affidavit-Divorce](#) form to document that they were not receiving alimony or child support due to the divorce.

If the support payment is sporadic and unpredictable; and therefore, should not be included when calculating household income complete [Affidavit-No Alimony](#) or [Affidavit-No Child Support](#), as applicable.

### Employment Verifications:

Determine income using the guidance provided in Chapter 2 of the Technical Guide under *Review of documents*. When unable to review two full months of check stubs and/or the income is unclear, complete a third party verification (VOE). When the verification is still unclear, contact the employer directly, and document the file.

Some employers require the use of Equifax/The Work Number ([www.theworknumber.com](http://www.theworknumber.com)) to obtain a VOE.

Overtime Fields: The overtime fields include the non-regular pay items; e.g. overtime, bonuses, etc.

Step 1: Determine what the year to date of all non-regular pay line items on the check stub are & convert them to a monthly amount. Insert the monthly amount for each of the 12 months.

Step 2: Determine what the bonus is

- Insert a significant bonus occurring once a year or quarterly on the month it actually occurs.
- Do not include a one-time bonus (union settlement, sign on bonus, etc.) if there is proof it will not reoccur. Proof may be, but is not limited to the following:
  - An income tax return which has a similar wage as the projected income without the bonus, or

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- A statement from the employer.

Regular contributions/gifts received from organizations or non-household members:

For each household member claiming they have no income, or for those who appear to have regular contributions or gifts from organizations and/or from non-household members, complete [Verification of Regular Contributions or Gifts](#) (always use when applicant/tenant indicates that they have no income) and [Verification of Recurring Cash Contributions](#), as appropriate.

### Documenting Unemployment:

Obtain an Unemployment Insurance Finding (UI Finding). Verify the amount deposited in applicant's bank statement matches the UI finding. If the amount deposited is different, it may be due to Federal & State Tax Withholding.

The income verifier uses the information below to determine the income.

1. Maximum Benefit Balance: The maximum amount the household member may be eligible to receive. It does not include Dependent Allowance, which is also available to the household member.
2. Benefit Year End Date: The last date the household member may receive benefits.
3. Weekly Benefit Amount
4. Dependent Allowance: Weekly benefit – may be received throughout the Benefit Year End Date regardless of the Maximum Benefit Balance

#### EXAMPLE:

Current date: 10/27/2020

Maximum Benefit Balance: \$2,657

Benefit Year End Date: April 1, 2021

Weekly Benefit Amount: \$105

Dependent Allowance: \$41

Step 1: Determine the amount of payments (weeks) that will be received from the current date and the benefit end date

Step 2: Multiply weekly benefit amount by amount of weeks calculated in step 1

Step 3: Multiply dependent allowance by amount of weeks calculated in step 1

Step 4: Compare step 2 to the maximum benefit balance and use the lesser of the two.

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Step 5: Add dependent allowance calculated in step 3 to the amount calculated in step 4

Step 6: The final answer (step 5) is what is used as their unemployment income

### Self-employed Household Members:

Self-employed household members submit their most recent year of tax returns. See TAX RETURNS section of this document for additional guidance.

1. For businesses started prior to reporting period, use [Net Income of a Business Self Employed](#) to determine income.
2. For businesses started during the reporting period, divide the net income by the number of weeks the business was active and then multiply that by 52 weeks, giving you the annual net income. Do the same for depreciation and complete [Net Income of a Business Self Employed](#).
3. For businesses started after the reporting period, complete [Verification of Income From Business](#) to determine income. Divide the net income reported by the number of weeks the business was active and then multiply that by 52 weeks, giving you the annual net income.

### Notes:

- Do not complete [Net Income of a Business Self Employed](#) if the applicant/tenant completes [Verification of Income From Business](#).
- It is not necessary to request a new tax return once the new year begins UNLESS it has been 6 months since the applicant/tenant was income qualified; i.e. the computer generated date on the income calculator summary page.
- If a household member has a negative income, offset the positive income of another household member.  
Ex: If household member one has a negative income of \$25,000 and household member two has an income of \$50,000, the total income would be \$25,000 for the household. Insert in income calculator \$0 income for household member one and household member two has income of \$25,000. Document in the file why you used \$25,000 for household income.

### Cryptocurrency:

According to HUD, virtual/crypto funds is currency. It is valued at the current exchange rate (U.S. dollar) at the time of deposit into a cash account. The person is then able to use the converted cryptocurrency just as it would any virtual currency/banking. If the client is being paid with cryptocurrency and converted into U.S. dollars into a banking institution, it would be considered virtual currency/cash/income.

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### Income from IRA Withdrawals:

Sporadic and inconsistent payments from IRA for eligible IRA distributions is considered income. Use the tax return as source documentation unless the withdrawals for the current year have already exceeded what was reported on the tax return.

### Rental Income and/or potential rental income if assets are occupied free of rent:

See Real Estate under the Assets section below for guidance.

### Assets & Income from assets:

Income verifiers must review at least six months of source documentation when determining the cash value of a checking account. For all other assets, just one most recent statement is acceptable when determining the cash value of an asset. In addition, verify with applicant if they have sold any assets within the last two years for less than the Fair Market Value (e.g. stocks, bonds, real estate).

### Deposit Verifications:

If the household member is unable to produce statements for deposit accounts/assets, obtain a third party verification. If there is a fee associated with obtaining a verification, the applicant/tenant pays the fee. However, the fee should never keep the applicant/tenant from being qualified for assistance.

Please ensure bank printouts have the bank name; e.g. bank produced statement, computer printout with URL present, printout with teller stamp & signature, printout on bank letterhead, etc.

The income verifier must review six months of source documentation for all debit cards and mobile banking apps separate from your traditional checking account, which allow for deposits like a traditional checking account, e.g. PayPal, cash app, square.

There are three main reasons for reviewing deposit accounts:

1. To determine the cash value (six month average of checking accounts & savings is the most recent statement);
2. To see if they have other accounts they did not mention in application; and
3. To determine other income revenue.
  - a. Use the Income Qualifying- Explanation of Additional Deposits to determine what the deposits are and if they should be included in the income calculation as income. Generally, the average re-occurring deposits are projected out over the next 12 months and included in income.

NOTE: The funding source determines how the income from assets is included in the annual income calculation.

- HOME – the calculation includes the greater between the inputted and actual income from assets.

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- CDBG – the calculation includes the actual income from assets.

Real Estate:

*Determining the asset/cash value of the property:*

The Fair Market Value (FMV) will be used as the cash value of a property. Source documentation should be of the online printout of the assessment. However, if unable to obtain online, the applicant/tenant may provide an appraisal (not more than 6 months old), or a current tax bill, as the source documentation.

If the applicant is over income using the cash value indicated above, determine the actual cash value by collecting the documents indicated below & completing [Equity Analysis Work Sheet](#).

1. Most recent FMV
2. Mortgage loan(s) payoff amount. Most mortgage servicers charge a fee to provide payoffs. Therefore, a computer printout (stamped by the bank or on Bank letterhead), a monthly mortgage statement, or a printout from the internet are acceptable forms of source documentation.
3. Fees associated with the sale of property. Obtain fees through a local title company and/or Realtor. Generally, the fees are charges for title, prep of deed, revenue stamps, brokerage fees, release of mortgage recording fee, and clear water/septic/well inspection fees.

*Determining the actual income from the property:*

As part of the application, request copies of lease(s). However, make sure it is clear that you may need additional documentation. Use leases to document the rent (income) from the property. When there are no leases because the unit is either vacant, or the tenant is not required to pay rent, figure the rent by determining the average of rents for several comparable (same number of bedrooms & bathrooms, building type, apartment v/s a house, etc.) units currently available within the area. However, if the applicant is over income using this method, determine the net rents by the following:

1. Determine annual rent based on leases or the average of rents in the area
2. Subtract allowable annual expenses:
  - a. Mortgage loan Interest,
  - b. Real estate taxes,
  - c. Insurance,
  - d. Utilities,
  - e. Repairs to the property; and
  - f. Depreciation.

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To determine allowable annual expenses when a unit is vacant or the tenant is not required to pay rent,

1. Call an insurance company to ask what the insurance premium might be for a comparable property,
2. Look up the annual real estate taxes,
3. Use utility allowances provided by the Public Housing Authority or the City, and
4. Collect documentation of any other known expenses that are included in the allowable expenses listed above.

The Calculation for Net Rents Received is as follows:

$$\text{Gross Rents} - \text{allowable expenses} = \text{Net Rents Received}$$

If the source documentation is a tax return, obtain a certified tax return for the file (see tax return section below).

### Tax Returns:

Request the most recent Federal & State tax returns. This includes any supporting income documentation e.g. w2, 1099, schedule c, etc. See Tax Return and Summary Spreadsheet in CD Share for assistance in determining source documentation.

1. If unable to provide a Federal tax return, applicant/tenant must request a transcript online through the Internal Revenue Service (IRS) website at IRS.gov.
2. If unable to provide a State tax return, applicant/tenant must request a transcript by mailing form IL-4506 and the required fee. The applicant/tenant may wait to complete this step until after the income verifier has determined the applicant/tenant is likely to income qualify.
3. A **Federal Record of Account Transcript** is an acceptable replacement of federal tax returns and/or W2's. It is not an acceptable replacement of certified tax returns. (If using the 4506T form, enter appropriate year and select 6a.)
4. For persons who do not file (no and/or minimal income – not required to file) obtain a **Wage and Income Transcript** that shows W-2, 1099, 1098 and Form 5498, IRA Contribution information. Information for the current tax year may not be available until July. Exceptions: Elderly and/or disabled persons on a fixed income are not required to file tax returns and therefore, no Wage and Income Transcript is necessary. (if using the 4506T form, select 8, form w2, form 1099 series, form 1098 series, or from 5498 series transcript).
5. Additional/clarification of policies for household members [not the main applicants(s)/tenants anticipated to execute the agreements/lease] unable to produce the Federal & State tax returns & W2's:
  - a. If tax returns are being used as source documentation, the policies below must be followed. Deny applicants/tenants if unable to obtain necessary documentation.



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- b. If tax returns are NOT being used as source documentation, try obtaining a Federal Record of Account or Wage and Income Transcript, depending on the situation. If unable to obtain, note the file why. It is not necessary to deny the applicant if unable to obtain.

If the tax returns are not Source Documentation, the application is being processed prior to IRS due date, generally April 15<sup>th</sup>, and tax returns have not been filed, it is acceptable to receive the prior year tax return. *For example, it is now February 1, 2019, and the household member has not filed their 2018 tax returns yet; accept the 2017 tax returns (filed in 2018).*

If the tax returns are Source Documentation, and the application is being processed between January 1<sup>st</sup> and April 15<sup>th</sup> collect the tax returns due that year. *Using previous example above, obtain the 2018 tax returns required to be filed in 2019.*

When tax returns are Source Documentation, follow the steps indicated below:

1. Request a Record of Account Transcript from the IRS online <https://www.irs.gov/individuals/get-transcript> or by calling IRS directly at 1-800-908-9946. If using the 4506T form (<https://www.irs.gov/pub/irs-pdf/f4506t.pdf>, enter appropriate year and select 6a.)
2. Proceed with the application if the Record of Account matches the household member's tax return originally provided.
3. For HOME funded activities only, at closing, complete with the household member, Form 4506 (request a certified tax return), and submit it to the IRS. Ensure that the following is on the form:
  - a. The mailing address of the income verifier;
  - b. Mark the box "Note: If the copies must be certified for court or administrative proceedings, check here . . . . ."
  - c. If household member is not paying the fee, mark the box "If we cannot find the tax return, we will refund the fee. If the refund should go to the third party listed on line 5, check here . . . ." so the check is returned to the income verifier if the IRS cannot complete the request.

If the main household members [applicants/tenants expected to execute agreements/leases] have not filed tax returns and owes money to the Federal or State Government, deny the application.