

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY  
COMMUNITY DEVELOPMENT DIVISION

**PB 11B – IRS FORM 1040**

**INCOME AND ASSET GUIDEBOOK  
FOR HOMEBUYER PROGRAMS**

Grant administrators of the Community Development Division (CD) funds must certify that program recipients meet the Housing and Urban Development (HUD) and Michigan State Housing Development Authority (MSHDA) eligibility requirements. CD has prepared this Guidebook for income determinations for homebuyer activities.

***With this policy bulletin, effective May 1, 2009, MSHDA is implementing the IRS Form 1040 income definition for all homebuyer activities, in place of the Part 5 (or Section 8) definition.*** The IRS 1040 definition is permitted by HOME and CDBG regulations. MSHDA believes that this definition of income will be more familiar to homebuyers and more favorable to qualifying buyers for assistance.

***MSHDA will continue to use the Part 5 method for rental and homeowner rehab activities.***

The major differences between Part 5 and Form 1040 methods are:

- Child support payments are not included in the IRS Form 1040 definition of income;
- The IRS Form 1040 method counts only the taxable amounts of IRA distributions, pensions and annuities, and social security benefits;
- The IRS Form 1040 definition allows the deduction of alimony payments; and
- The IRS Form 1040 definition does not require inclusion of imputed income from assets, and does not require imputed or actual income in undistributed retirement accounts.

**Note:** In some cases, two or more Federal programs may provide assistance to a single program or project. When this is the case, the Grantee should be careful to comply with CD requirements as well as any additional requirements of other sources of funds.

The income method described herein is used to determine whether a household is under the HUD income limit to qualify for assistance. The amount of subsidy is determined by the amount of first mortgage the buyer/borrowers qualify for based on the income determination qualifying standards of the lender (as generally accepted by Fannie Mae and MSHDA's homeownership division), subject to the limits on liquid assets contained in this guide.

# HOUSEHOLD ELIGIBILITY REQUIREMENTS

## Area Median Income (AMI) Limits

CD grant funds are reserved to benefit low-moderate income households and, depending on the type of program, the following maximum income limits apply:

| Homebuyer Assistance activities funded with | Annual Income at or below | Income Limits  |
|---|---------------------------|--|
| CDBG and HOME                               | 80% AMI                   | use income limits on OPAL  |
| NSP   | 120% AMI                  | use data from current FY income limits applicable for NSP at 120% AMI at <a href="http://www.huduser.org/DATASETS/nsp.html">http://www.huduser.org/DATASETS/nsp.html</a> |

## Citizenship

Pursuant to the Welfare Reform Act in 1966 and Section 401 of Title IV of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), a Federal public benefit for public or assisted housing requires verification of legal residency in this country before providing assistance. Each household member must complete the "Declaration of Section 214 Status" form and attach documents as required.

For information about immigration services, contact the U.S. Citizenship and Immigration Services, Detroit District Office, 1-800-375-5283 or visit their website online at [https://egov.uscis.gov/crisgwi/go?action=offices.type&OfficeLocator.office\\_type=LO](https://egov.uscis.gov/crisgwi/go?action=offices.type&OfficeLocator.office_type=LO).

## Household Size

Income limits are adjusted by household size; therefore, one of the first steps in determining eligibility is to determine the size of the household.

Some households may have members whose income, if any, is not considered when calculating annual income. **Do not** count the following household members when determining family size or annual income:

- ✓ Foster Children;
- ✓ Live-in Aides;
- ✓ Children of Live-In Aides;
- ✓ Unborn Children;
- ✓ Children Being Pursued for Legal Custody or Adoption who are not currently living with the household.

**Note:** A child in a shared-custody agreement and resides in the household at least 50% of the time can be counted as a household member.

**Restrictions on Assistance to Students Enrolled in an Institution of Higher Education - For HOME and HOME PI activities only**

*This section applies only to **full time and part time students** who are seeking assistance on their own, separately from their parents. It does not apply to students residing with parents who are seeking or receiving assistance.*

The 2013 Rule specifically excludes certain students from participating independently in the HOME program. The HOME program adopts the Section 8 Housing Choice Voucher (HCV) program restrictions on student participation found at 24 CFR 5.612.

If a student enrolled at an institution of higher education is

- under the age of 24,
- not a veteran,
- not married,
- does not have a dependent child, and
- is not a person with disabilities

then the student's eligibility must be examined along with the income eligibility of the student's parents. In these cases, both the student and the student's parents must be income eligible for the student to receive assistance.

If, however, a student in these circumstances is determined independent from his/her parents in accordance with MSHDA policy, the income of the student's parents will not be considered in determining the student's eligibility.

To verify student's independence from parents, all of the following must be provided:

- Proof student has established a household separate from parents for at least one year.
- Prior year income tax returns to verify parents did not claim student as dependent.
- Written certification from parents identifying amount of support they will be providing to student, even if the amount of support is \$0.

If documentation is not provided then the student is prohibited from receiving any type of HOME assistance, including renting HOME-assisted rental units, receiving HOME tenant-based rental assistance, or otherwise participating in the HOME program.

### **Whose Income to Count**

See Policy Bulletin 16 for additional Household Eligibility Requirements.

Include all income according to the IRS definition that can be projected over the next 12 months, which are received by, or paid on behalf of:

- ✓ The head of household
- ✓ Co-head, or spouse (even if temporarily absent)
- ✓ Any other family member over 18 years of age (except full-time dependent students)

Exclude the income of full-time dependent students. However, the income of the head of household and spouse **MUST** be counted even if either or both are full-time students; and student status of dependent household members 18 or older must be verified by the school they are attending in order to exclude their income.

**Marital Separations.** All parties with a legal interest in the property, including both spouses, must sign the lien agreement. A married applicant who is separated may be eligible if:

- ✓ Applicant can provide proof of separation (i.e., separate addresses, court documentation, etc.) and it is at least six months prior to the date of application, AND
- ✓ Separation status and income and/or support payments are verified by a Judgment of Separate Maintenance OR a notarized affidavit signed by the applicant.

**Note:** The notarized affidavit should state the following:

1. name and addresses of both parties,
2. date of separation,
3. date divorce proceedings will begin,
4. alimony payments are being made to either party and amount,
5. child support payments being made to either party and amount,
6. other payments and amount, and
7. other pertinent information regarding this separation.

### **Initial Eligibility**

Grant administrators of CD program funds must certify that program recipients meet HUD and MSHDA annual income requirements for eligibility. Depending on the component, the timing of determining income eligibility will vary as follows:

| <b>Program</b>   | <b>Households must be income eligible at</b>               |
|--|--|
| Homebuyer -<br>ADR, HPR and DPA  | the time of purchase (closing)                             |
| Homebuyer -<br>New Construction  | the signing of the contract between purchaser and grantee. |
| Lease Purchase   | the time the lease is signed.                              |
| <b>Note:</b> All income verification documents must be less than 6 months old. |  |

## VERIFICATION PROCESS

### Income Packet Forms

CD will only accept verification of income and assets as outlined in this Guidebook and on the forms contained herein. Forms may not be altered without CD's prior approval. Following are steps in the verification process:

1. All head of households complete a **Family Composition** form.
2. **Authorization for Release of Information and Privacy Act Notice**, signed and dated by all household members 18 years and older.
3. **Declaration of Section 214 Status**, all household members must be listed, signed and dated by all household members 18 years and older. Children under 18 cannot sign the form and adult must sign their name (not child name).
4. **IRS 4506-T Request for Transcript of Tax Return**, signed and dated, required for all household members 18 years and older (except full-time dependent students). This allows Grantee to request a transcript of your tax return from the IRS, if needed.
5. **Federal income tax return** (not state or city) return must be provided for all applicants, spouse, and other adult household members (except full-time dependent students).

Two years of most recent tax returns are required for applicants with

- Business income or loss
- Capital gains or losses
- Farm income or loss
- Rental real estate, royalties, partnerships, S corporations, trusts, etc.
- Self employed

If an adult household member was not required to file a Federal tax return, a notarized affidavit must be provided.

6. Review Family Composition and for all household members 18 years and older, a **Checklist** form must be completed for each person, signed and dated.
7. Review Checklist, review all items marked "yes" relative to income and assets are required to have verification documents.
8. A verification document is valid for 6 months from date of the Checklist. If applicant does not receive assistance within 6 months, it is outdated and a new complete income packet must be submitted.
9. Verification documents are reviewed for accuracy. Handwritten calculations at bottom of document are suggested.
10. Grantee will transfer calculations into the **Annual Household Income Worksheet – HO and RR** form.

11. Use the income limit in effect on the date all verifications are received and the Worksheet is completed by grantee staff.
12. Grantee staff will sign and date Worksheet and place as cover sheet on income packet.

### **Level of Verifications Hierarchy**

Income must be verified using the following hierarchy as set forth by HUD. The Level of Verifications Hierarchy has been streamlined to allow applicant-provided documents and, therefore, the traditional third party verification form sent to the third party may not be required. Grantee should begin with the highest level of verification techniques. If the income report does not contain employment and/or income information needed, Grantee should attempt the next level of verification.

The five levels of verification, in order of acceptance to HUD, are identified below:

#### **1. Up-Front Income Verification (UIV)**

This method is not allowed by MSHDA because more detailed income information is available from source documents provided by applicant.

#### **2. Original Source Documents Provided by Applicant**

The Grantee must review original and authentic source documents provided to the applicant by a third party source. The source documents cannot be dated more than 60 days preceding date on Checklist. The Grantee may, at its discretion, reject any applicant-provided documents and move to the next level of hierarchy. Examples of acceptable applicant-provided documentation (generated from a third party source) include, but are not limited to:

|  |   |
|--|---|
| Paycheck stubs or statements               | 2 months current and consecutive  |
| Bank statements                            | online printouts acceptable OR verification of resource form            |
| SSA benefit verification letter            | Typically received once per year, no date requirement for this document |
| Employer notice/letter of hire/termination | Payroll summary report  |

Original and authentic verification documents are preferred. Grantee will photocopy for project file and return originals to applicant.

► **Grantee should NOT obtain both original source documents AND written Third Party Verification forms - it may result in conflicting information - unless needed for specific reason (ie, new income sources or pay stubs not available).**

Bank statements that reflect direct deposit amounts are not acceptable because they do not identify gross amounts or deductions, Medicare deductions, gross wages, etc. Applicant must provide documentation obtain from the source.

Per HUD, under no circumstances may a copy of a U.S. Treasury issued check be retained in an applicant file.

### 3. Third Party Verification Form – Written

If original source documents are not provided by applicant or accepted by Grantee, a written Third Party Verification (TPV) Form is used to verify information directly from the source and **must** be requested by the Grantee via first class mail, e-mail, fax, drop off at source, etc. **The applicant CANNOT hand carry any verification documents to or from the source.**

The Grantee must obtain applicant release signatures at the top of the applicable TPV forms, **OR** attach a copy of the signed “Authorization for Release of Information and Privacy Act Notice” form with the words “see attached authorization form” written on the applicant signature line of the applicable verification form prior to sending to the source.

The signed verification forms are submitted by the Grantee directly to the verification source who then returns the document(s) directly back to Grantee. **The applicant CANNOT hand carry any verification documents to or from the source.**

The Grantee will submit the 1<sup>st</sup> request for written TPV directly to each source. If not returned by source within 14 days, a 2<sup>nd</sup> request for written TPV is made. Allow source 7 days to respond to 2<sup>nd</sup> request for written TPV – for a total of 21 days.

**“Third Party Verification (TPV) Monitoring” form to track requests is recommended.**

The verification must come directly from the source, all required information is completed, signed, dated and was:

|               |   |
|---------------|---|
| <b>Mailed</b> | When possible include the envelope as proof that the verification was received from the TPV source. If more than one verification is received in an envelope, Grantee should notate date, and sign on each verification form that it was received with other verifications from the source. Date stamps are acceptable. |
| <b>Faxed</b>  | must identify the source’s name encoded on the faxed documents or the cover sheet showing the source’s name must be stapled to the document.  |
| <b>Email</b>  | must identify the source’s name encoded on the faxed documents or the cover sheet showing the source’s name must be stapled to the document.  |
| <b>Other</b>  | for example, the Grantee stopped by a source’s place of business and picked up verification directly from source. Grantee must notate on form that verification was picked up directly from the source by the Grantee, date and sign.   |

The Exceptions noted below are acceptable reasons to move to the next level of hierarchy.

**Fee Requests from TPV Source.** MSHDA does not require Grantee or applicants to pay a fee for verifications to the TPV source. If a service request fee is charged by the TPV source to complete a verification form, keep a copy of the fee request document or an e-mail from the source identifying the source name, address, phone number, and fee amount. Notate on document “MSHDA will not pay fees” and place a copy of the fee request and/or e-mail in the file. Go to the next level of TPV hierarchy.

The following language can be added to fax cover sheet or on a label adhered to the Verification form which reads: “PLEASE NOTE: If there is a fee incurred to your customer for this verification, please contact Grantee Agency at 517.555.1111 before proceeding.”

**Letters of Refusal to Provide Verification from TPV Source.** When a TPV source refuses to provide requested information, the letter of refusal will be reviewed by the Grantee and, if approved as an exception, will be retained in the project file. This will allow the Grantee to move to the next level of TPV hierarchy.

#### **Third Party Verification (TPV) Monitoring Form**

This recommended form is used to track verification forms being sent to sources by Grantee. Use keys on form to track method all income and/or asset items checked "Yes" on the Checklist are verified.

#### **4. Third Party Verification – Verbal**

If the above hierarchies are not achieved, Grantee must initiate verbal contact with the source identified on the Checklist (i.e. supervisor, personnel department, etc.) to obtain the necessary verification.

Notate the name of contact person, required data (including overtime, premium and pay increases), date and time contacted, and Grantee signature.

#### **5. Family Certification**

**This method is not allowed.**

## INCOME DEFINITIONS AND CALCULATION

### IRS Form 1040 Definition

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The IRS Form 1040 requires reporting of certain kinds of income, which are then added together to constitute what is referred to as "gross income." From the gross income figure, certain deductions are then taken to arrive at an "adjusted gross income." This is the figure used to determine an applicant's eligibility for participation in CD's homebuyer programs.

Gross income is required to determine mortgageability and whether the mortgage payment (principal, interest, tax and insurance) is sustainable by the homebuyer. **This amount will be determined by applicant's lender and entered on proforma Line B16.**

### Gross Income Definition

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Annual gross income is determined by calculating a household's **anticipated** total or gross income over the next 12 months.

Use gross income and include holiday pay in determining gross income. Do not deduct taxes or other payroll deductions from gross income (i.e., funds put into retirement account). Include all tips, bonuses, scheduled pay increases or other additional amounts. Multiple entries on income calculation sheet may be required.

### Irregular Income Definition

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Irregular Income is defined as income received in an unpredictable manner, such as income from seasonal employment, households with irregular income from temporary work agencies, or alimony. Irregular Income is also wage amounts that vary from paycheck to paycheck.

Certain irregular income will require a two year average to project annual income. For example, an outside painter may work April – October or March – November depending on the weather. Follow self-employed two-year averaging methodology to calculate income. Also, see *Annual Household Income Worksheet, Calculator tab, Irregular Income calculator for assistance or contact your CDS.*

- School Employment – Most schools are in session 37 weeks a year: calculate at 37 weeks worked and 15 weeks off unless verification documents specifically note otherwise. School employees usually have a choice of being paid their yearly salary spread out over 37 weeks or 52 weeks.
- Unemployment Benefits – Multiply the gross weekly benefit by the number of weeks remaining in the eligibility period. Grantees must be sure to consult with employers for the possibility of a return to employment and/or check with the unemployment office on the possibility of an extension of benefits.

### Taxable Income Definition

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The definition of **adjusted gross income** is taxable income **less** eligible adjustments allowed according to the IRS 1040 of all adult household members (except full-time dependent students) anticipated to be received during the coming 12-month period.

Taxable income is defined as gross pay **less** any pre-tax deductions for dental, health, vision, dependent care and/or flexible medical savings accounts, supplemental medical plan, pre-taxed parking, retirement contributions and annuity payments (403b, 401k and 457 deferred compensation). These deferred wages are not subject to income tax withholding at the time of deferral and are not reflected on an IRS Form 1040 as they are not included in the taxable wages on a W-2 form. However, it is not to be assumed that any of these items are pre-tax as they may also be post-tax items. It solely depends upon the accounts being offered by the employer. **Review of the check stub and/or verification with the employer is required to determine if deductions are pre-tax or post-tax.**

### **Calculate Income - Paycheck**

*Calculate income from a paycheck using the Calculator tab on the Annual Household Income Worksheet excel spreadsheet, then enter gross amount in Worksheet and it will round automatically. If amounts are rounded during various steps of calculating, it will result in incorrect income projections.*

#### Project Annual Gross Income

1. Review paycheck and/or Checklist to determine date of hire and date of check.
2. Is pay period weekly, every two weeks, bimonthly or monthly?
3. Use date of check and calendar, count backward notating each pay day going back to the (1) date first check was received in calendar year OR (2) date of hire to determine how many pay periods are covered in the Year-to-Date (YTD) amount.

#### Example (1)

|  |  |
|--|--|
| Date of paycheck                               | 10/04/2013                               |
| Pay period - every two weeks                   | 26 pay periods in year                   |
| Count backward to first check received in 2013 | 01/11/2013 = 20 pay periods YTD on check |

#### Example (2)

|  |                                   |
|--|-----------------------------------|
| If person began work on 05/01/2013, verify   |                                   |
| if first paycheck was received on 05/03/2013 | if yes, then YTD = 12 pay periods |
| if first pay check was 05/17/2013            | if yes, then YTD = 11 pay periods |

4. Review paycheck for YTD Gross amount received.
5. Review paycheck for one-time bonus. If so, it will be subtracted out to project forward and then add back in.
6. Determine number of pay periods per year (if paid weekly = 52, every 2 weeks = 26, bimonthly = 24, monthly = 12, etc.)
7. Take YTD Gross amount, divide by number of pay checks received YTD, multiply by total number of pay periods in year = Projected Annual Gross.
8. If one-time bonus, add back in.

#### Example (1) cont'd

|                                      |             |
|--------------------------------------|-------------|
| YTD Gross on check                   | \$26,102.40 |
| Divide by 20 pay checks received YTD |             |

|                                    |                    |                                      |
|------------------------------------|--------------------|--------------------------------------|
| Multiply by 26 pay periods in year | <b>\$33,933.12</b> | <b>Projected Annual Gross Income</b> |
|------------------------------------|--------------------|--------------------------------------|

Example (2) cont'd

|                                      |             |                               |
|--------------------------------------|-------------|-------------------------------|
| YTD Gross on check                   | \$26,102.40 |                               |
| Divide by 12 pay checks received YTD |             |                               |
| Multiply by 26 pay periods in year   | \$56,555.20 | Projected Annual Gross Income |

|                                      |             |                               |
|--------------------------------------|-------------|-------------------------------|
| Divide by 11 pay checks received YTD |             |                               |
| Multiply by 26 pay periods in year   | \$61,696.58 | Projected Annual Gross Income |

Project Taxable Earnings

9. Review paycheck for YTD pre-tax amount(s).
10. Take YTD pre-tax amount, divide by number of pay checks received YTD, multiply by total number of pay periods in year = Projected Pre-Tax.
11. Annual Gross minus Projected Pre-Tax = Projected Taxable Earnings.

Example (1) cont'd

|                                      |                    |                   |
|--------------------------------------|--------------------|-------------------|
| YTD Pre-Tax on check                 | \$ 217.56          |                   |
| Divide by 20 pay checks received YTD |                    |                   |
| Multiply by 26 pay periods in year   | \$ 282.83          | Projected Pre-Tax |
| Annual Gross                         | \$33,933.12        |                   |
| Minus Projected Pre-Tax              | <u>282.83</u>      |                   |
| = <b>Projected Taxable Earnings</b>  | <b>\$33,650.29</b> |                   |

## INCOME REVIEW STEPS

To make calculating homebuyer income more efficient, effective 6/1/2015, CD will implement a new method for calculating income using the 1040 method and the revised Annual Household Income Worksheet as follows:

| STEP   | ACTION                                     | OUTCOME  |
|--------|--|--|
| 1      | Calculate Gross Income                     |  |
| 2      | Calculate Assets                           | Liquid Assets<br>Actual Income from Assets     |
| Review | Liquid Assets                              | Total Cash Value > \$20,000 = contribute       |
|        | Gross + Income from Assets                 | =< Income Limit <b>STOP</b> applicant eligible |
| 3      | Calculate Taxable Income                   |  |
| Review | Taxable + Income from Assets               | =< Income Limit <b>STOP</b> applicant eligible |
| 4      | Calculate Adjustments                      |  |
| Review | Taxable – Adjustments + Income from Assets | =< Income Limit <b>STOP</b> applicant eligible |
|        | If over Income Limit                       | applicant NOT eligible                         |

If applicant is eligible after Steps 1 and 2, there is no need for further review.

If not eligible, continue to Step 3.

If applicant is eligible after Step 3, there is no need for further review.

If not eligible, continue to Step 4.

Applicant will either be eligible or not eligible.

For NSP LISA eligibility, complete Steps 1 through 4 above in entirety to determine if applicant is at or below 50% AMI.

## INCOME INCLUDE

Following are sources of income to be included. Use current amount and project forward.

| ITEM   | GROSS AMOUNTS   | TAXABLE AMOUNTS   |
|--|---|---|
| Adoption subsidy   |   |   |
| Alimony  |   |   |
| Annuities  | Include the full amount of periodic payments received from a written contract establishing a right to receive specified, periodic payments for life or for a term of years. | Use amount based on current monthly/quarterly distributions and project forward. See Simplified Method Worksheet – Lines 16a and 16b in IRS Form 1040 Instructions. |
| Business income or (loss)  | Use 2 year average  | Use 2 year average  |
| Capital gains or (losses)  | Use 2 year average  | Use 2 year average  |
| Dividends  |   |   |
| Farm Income or (loss), Sch F   | Use 2 year average  | Use 2 year average  |
| Interest   |   |   |
| IRA Distributions  | Includes simplified employee pension (SEP) and savings incentive match plan for employees (SIMPLE) IRAs.  | Use taxable amount of IRA distribution. Includes simplified employee pension (SEP) and savings incentive match plan for employees (SIMPLE) IRAs.                    |
| Other gains or (losses)  | Usually one time from sale of business assets and not projectable   |   |
| Other Income<br>prizes and awards;<br>gambling, lottery or raffle<br>winnings;<br>jury duty fees;<br>income from the rental of<br>property if not in the<br>business of renting such<br>property; taxable<br>distributions from<br>educational and health<br>savings plans;<br>taxable scholarships. |   |   |
| Pensions   | Include full amount of periodic payments received including a lump-sum amount or prospective monthly amounts for the delayed start of a periodic amount.                    | Use amount based on current monthly/quarterly distributions and project forward. See Simplified Method Worksheet – Lines 16a and 16b in IRS Form 1040 Instructions. |
| Refunds, credits, or offsets<br>of state and local income<br>taxes   |   |   |
| Rental real estate, royalties,<br>partnerships, S<br>corporations, trusts, etc.,<br>Sch E  | Use 2 year average  | Use 2 year average  |
| Social Security Benefits,<br>Survivor Benefits, Death<br>Benefits  | Include full amount of periodic payments received including a lump-sum amount or prospective monthly  | Individual returns with income more than \$25,000 and joint returns with income more than   |

|                             |   |   |
|-----------------------------|---|---|
|                             | amounts for the delayed start of a periodic amount. Include SS benefits on behalf of minor child but received by parent or guardian.  | \$32,000, require taxes to be paid on SS benefits. Use current benefits statement and the worksheet in IRS Publication 915 to project taxable amount. |
| Unemployment compensation   | Multiply gross weekly benefit by the number of weeks remaining in the eligibility period. Grantees must be sure to consult with employers for the possibility of a return to employment and/or check with unemployment office on the possibility of an extension of benefits.   |   |
| Wages, salaries, tips, etc. | Include all anticipated gross amounts of wages and salaries prior to payroll deductions or garnishments, including all employment sources, overtime pay, commissions, fees, bonuses, tips, other compensation for personal services, and projected pay increases and/or raises. |   |

## **INCOME EXCLUDE**

Items that are specifically excluded from income include:

| <b>ITEM</b>   |  |
|---|--|
| Child Support   |  |
| Gifted money or property                                      | Verify amount does not exceed annual exclusion for year, see Pub 950 |
| Inherited money or property                                   | Verify amount does not exceed annual exclusion for year, see Pub 950 |
| Life insurance proceeds received as result of someone's death |  |
| Supplemental Security Income (SSI)                            |  |
| Willed money or property                                      | Verify amount does not exceed annual exclusion for year, see Pub 950 |

## **LIQUID ASSETS**

CDD-funded homebuyers are eligible for a subsidy limited to the amount necessary to make the unit affordable (principal reduction), down payment and closing cost assistance. The amount of homebuyer subsidy is limited to \$30,000 for ADR and \$40,000 for HPR including a maximum of \$10,000 for DPA and closing costs. Exceptions may be granted on a case-by-case basis.

NOTE: In cases where ADR units remain unsold after months of aggressive marketing, CDD may allow the grantee to offer a deeper homebuyer subsidy as an incentive to potential buyers. Grantees must receive prior approval on a unit-by-unit basis.

Homebuyer Investment. When ADR or HPR homebuyers (non-NSP) have a **Cash Value of Liquid Assets which exceed the allowed \$20,000**, then the homebuyer is required invest excess into transaction (see Policy Bulletin 16).

Cash Value is defined as value of asset less fees, costs, penalties and/or indebtedness. Enter the Cash Value for the following Liquid Assets on the Worksheet.

- |   |  |
|---|--|
| <input type="checkbox"/> Cash   | <input type="checkbox"/> Any other bank accounts   |
| <input type="checkbox"/> Savings accounts   | <input type="checkbox"/> Any stock or bonds  |
| <input type="checkbox"/> Checking accounts  | <input type="checkbox"/> Funds from gift letters   |
| <input type="checkbox"/> Certificates of deposit                                    | <input type="checkbox"/> Any funds derived or to be derived from the sale of real property, any mobile home or other property prior to loan closing. Documentation showing net proceeds from any such sale is required |
| <input type="checkbox"/> Savings amount for an Individual Development Account (IDA) | <input type="checkbox"/> Equity in real property   |
| <input type="checkbox"/> Total balance of any joint accounts                        |  |
| <input type="checkbox"/> Money market or mutual fund accounts                       |  |
| <input type="checkbox"/> In trust for accounts – providing the amount is accessible |  |

**Example 1:** Mary wants to buy an ADR home which has an appraised value of \$100,000. She qualifies for a mortgage in the amount of \$75,000. Mary has \$25,000 in liquid assets and must contribute \$5,000 (the amount in excess of \$20,000) toward the purchase of her home.

**Example 2:** Before considering their liquid assets, the Smith family needs \$30,000 in Homebuyer Subsidy to purchase an ADR home appraised at \$90,000. They qualify for a \$60,000 mortgage and have liquid assets of \$22,000. The Smiths will need to invest \$2,000 of the excess liquid assets toward the purchase and will receive a Homebuyer Subsidy of \$28,000.

**Example 3:** Cindy Brown will purchase a home using the HPR model and is eligible to receive \$14,000 in closing cost and rehabilitation assistance. She has liquid assets of \$24,000. MSHDA's policy requires the buyers to contribute the amount of liquid assets in excess of \$20,000. Cindy will contribute \$4,000 and receive a homebuyer subsidy of \$10,000.

**Example 4:** Evan and Kathy Wright are applying for a HPR home and upon review it appears they are eligible to receive \$15,000 in closing cost and rehabilitation assistance. They have \$40,000 in liquid assets. MSHDA's policy requires buyers to contribute the amount in excess of \$20,000, which would be \$20,000. The Wright's are not eligible to receive assistance with the purchase and rehabilitation of this unit.

## **INCOME FROM ASSETS**

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The IRS Form 1040 method requires the following **actual income** from assets to be included in the income calculation.

- Dividends
- Gambling winnings
- Interest (taxable)
- Lottery winnings
- Prizes, awards
- Raffle winnings
- Retirement account distributions

**Imputed income** from assets (HUD passbook rate) is not calculated or included.

## Adjustments to Income

Adjustments to income are allowed to the extent they would appear on the IRS 1040 form in the "Adjusted Gross Income" section.

If the applicant is under the income limit (80% AMI for HOME and CDBG, or 120% AMI for NSP) without calculating adjustments then they are program eligible and no further action is required. If the applicant exceeds the income limit, the following adjustments can be considered to qualify the applicant for program eligibility IF there is a reasonable basis for the adjustment over the next 12 months. Grantee should obtain proof of current amounts and project forward.

| ITEM  | USE GROSS AMOUNTS   | USE TAXABLE AMOUNTS  |
|---|---|--|
| Alimony paid  | Provide divorce decree, proof of payments and project forward   | Provide divorce decree, proof of payments and project forward  |
| Contributions to Self Employed SEP, SIMPLE, and Qualified plans |   |  |
| Domestic productions activities deduction                       |   |  |
| Educator expenses   |   |  |
| Health Savings Account deduction (attach form 8889)             |   |  |
| IRA deduction   | include full amount of periodic payments received including a lump-sum amount or prospective monthly amounts for the delayed start of a periodic amount | use amount based on current monthly/quarterly distributions and project forward. See IRA Deduction Worksheet – Line 32 in IRS Form 1040 Instructions |
| Moving Expenses   |   |  |
| One-half self-employment tax                                    | Attach Schedule SE or project forward using IRS Form 1040-ES  | Attach Schedule SE or project forward using IRS Form 1040-ES   |
| Penalty on early withdrawal of savings                          |   |  |
| Reservists, certain business expenses of                        |   |  |
| Self-employed health insurance                                  |   |  |
| Student loan interest deduction                                 |   |  |
| Tuition and fees deduction                                      | Must have verification of school enrollment and project forward   | Must have verification of school enrollment and project forward  |

# FILE AND SUBMISSION REQUIREMENTS

## File Requirements

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Each assisted household file should have the following documentation **in the income packet**, listed in order:

1. Annual Household Income Worksheet - HB
2. Family Composition
3. Authorization for Release of Information and Privacy Act Notice
4. Declaration of Section 214 Status
5. Signed IRS 4506-T "Request for Transcript of Tax Return" for each adult household member (except full-time dependent students)
6. Checklist(s) for each adult
7. Copies of source documents and/or written verification forms
8. Most recent year's **Federal (not state or city)** tax return for each adult household member (or one for spouses filing joint). If self-employed, two years are required.
9. Third Party Verification (TPV) Monitoring log **(optional)**

## Submission Requirements

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All Grantees must **submit** a copy of the entire income packet (via email or US mail) in the above order to their CD Specialist when

- the gross annual income falls within \$5,000 or 10% of the upper income limit for an CD program, or
- applicant is self-employed, or
- student rule is applicable, or**
- upon request by CD Specialist.

**CD Specialists will review and reply to Grantee within 10 business days of receipt of income packet.**

For all applicants, calculate annual income for program eligibility and file all documentation and worksheets in the project file. **If applicant is over income or otherwise ineligible, retain income packet with corresponding grant file for entire retention period.**

PB 11B – IRS FORM 1040

**INCOME AND ASSET GUIDEBOOK  
FOR HOMEBUYER PROGRAMS**

**RESOURCES**

|  |  |   |
|--|--|---|
| IRS Forms                                  | 1040 Form  | Forms and Pubs at<br><a href="http://www.irs.gov/">http://www.irs.gov/</a>  |
|  | 1040 Instructions, AGI deductions  |   |
|  | Schedule C,<br>Profit or Loss from Business                                |   |
|  | Schedule E,<br>Supplemental Income and Loss                                |   |
|  | Schedule F,<br>Profit or Loss from Farming                                 |   |
|  | Social Security Taxable Benefits<br>Worksheet, Publication 915             |   |
|  | Tax Return Transcript (4506-T)   |   |
| US Citizenship and<br>Immigration Services | I Am a Permanent Resident<br>I Am a Refugee or Asylee<br>I Am a US Citizen | Search at<br><a href="http://www.uscis.gov/forms">http://www.uscis.gov/forms</a>  |
|  | Permanent Resident Cards, sample   | <a href="http://www.immihelp.com/greencard/sample-permanent-resident-card-greencard.html">http://www.immihelp.com/greencard/sample-permanent-resident-card-greencard.html</a> |
| Social Security                            | Social Security Claim Number Codes   | <a href="https://portal.hud.gov/hudportal/documents/huddoc?id=DOC_10855.pdf">https://portal.hud.gov/hudportal/documents/huddoc?id=DOC_10855.pdf</a>                           |
| Student Rule                               | Definition of “Institution of Higher Education”, p4, 8.a.                  | <a href="http://www.gpo.gov/fdsys/pkg/FR-2006-04-10/pdf/06-3365.pdf">http://www.gpo.gov/fdsys/pkg/FR-2006-04-10/pdf/06-3365.pdf</a>   |
|  | Eligibility of Students for Assisted Housing                               | <a href="http://www.gpo.gov/fdsys/pkg/FR-2006-04-10/pdf/06-3365.pdf">http://www.gpo.gov/fdsys/pkg/FR-2006-04-10/pdf/06-3365.pdf</a>   |
|  | Questions and Answers on the Eligibility of Students for Assisted Housing  | <a href="http://portal.hud.gov/hudportal/documents/huddoc?id=DOC_20482.pdf">http://portal.hud.gov/hudportal/documents/huddoc?id=DOC_20482.pdf</a>                             |