CHAPTER 3
INCOME CALCULATIONS

Indian Housing Authorities (IHAs) use income information: (1) to determine whether an applicant is eligible to live in IHA housing, (2) to calculate low much the family is able to pay for housing costs, and (3) for some families, to determine whether or not they have the financial resources to become homeowners.

This chapter provides instructions for calculating family income and highlights key income policies. Guidance on computing tenant rents and homebuyer payments is provided in Chapters 4 and 5, respectively.

PART I: CALCULATING ANNUAL INCOME

3.1 ANNUAL INCOME [24 CFR 950.102]

What Is Annual Income? In general terms, annual income is the gross amount of income that household members are expected to receive during the coming 12-month period.

Watch for Updates

Lists of income inclusions and exclusions are periodically revised in the Federal Register, as Congress adds to the definitions. IHAs should should stay informed of these changes.

Annual Income Inclusions and Exclusions: HUD regulations provide a list of specific sources of income that are included (in other words, must be counted) and excluded (in other words, are not counted) in calculating annual income. Exhibit 3-2 provides the list of income that must be included. Exhibit 3-3 has a list of income sources that are not included.

Sample Format for Calculating Income: Appendix 13 contains a sample format for calculating annual and adjusted income. IHAs may use this format or design an alternative form that uses the same methodology.

3.2 DETERMINING WHOSE INCOME TO COUNT

Knowing whose income to count is as important as knowing which income to count. Special rules apply to the household members discussed here.

Live-In Aides: If a household includes a paid live-in aide (whether paid by the family or a social service program), the income of the live-in aide is not counted. Except under unusual circumstances, a related person should not be considered a live-in aide.

Income Attributable to Care of Foster Children: Foster children are not counted as family members when determining family size.

Thus, income the household receives for the care of foster children is not counted as income.

For income to be considered income from foster care, the child must have been placed in the family's care by action of the tribe or other government entity that has jurisdiction over the care of children.

Earned Income of Minors: Earned income of minors (age 17 and under) is not counted. However, unearned income attributable to a minor -- such as child support, Aid for Families with Dependent Children (AFDC) payments and other benefits paid on behalf of a minor -- is counted.

Temporarily Absent Family Members: The income of a temporarily absent family member is counted -- regardless of the amount the absent family member contributes to the household.

An Example of Income from a Temporarily Absent Family Member
A construction worker employed at a temporary job on the other side of a state earns $400/week. He keeps $200/week for expenses and sends $200/week home to the family. The entire $400 is counted as income.

Adult Students Living Away From Home: If the adult student is counted as a family member for the purpose of determining the income limit to be used and the number of bedrooms for which the family qualifies, the student's income must be counted.

Permanently Absent Family Member: If a family member is permanently absent from the household (for example residing in a nursing home), the head of household has two options:

- counting the person as a family member and including income attributable to that person, or

- specifying that the person is no longer a member of the household and not counting the income attributable to that person.

3.3 ANTICIPATING INCOME

Because income definitions are used to help determine how much each family can afford to pay for housing, IHAs must estimate -- or anticipate -- the family's income over the next 12 months.

Use of Historical information: Although it would be easier to use historical information (for example, the family's income last year), this would not necessarily provide a good estimate of the family's ability to pay in the coming year.

Use of Current Family Circumstances: The IHA should use current family circumstances to project the household's income for the next 12 months. The IHA should

Example: Uncertain Income for the Coming Year

Assume a family member works

assume that today's circumstances will continue for the next 12 months, unless there is verifiable evidence of a change in circumstances.

This method should be used even when it is not clear that the type of income will continue in the coming year.

When the family's circumstances change, the IHA can conduct an interim reexamination to adjust the family's payment.

at seasonal agricultural jobs. Monthly income varies between $400 and $800 per month over an eight-month period. Although it is unlikely that the family will be employed for the full year, household income is calculated as follows:
$600 (average monthly income) x 12 months = $7,200.

3.4 TREATMENT OF INDIAN TRUST OR PER-CAPITA FUNDS

Federal law provides that per-capita shares received from judgment funds awarded by the Indian Claims Commission or the Court of Claims, or from funds held in trust for an Indian tribe or individual Indian by the Secretary of the Interior, shall be exempt, up to $2,000, from use in determining income for federal programs. This includes income derived from trust or restricted lands and applies to all HUD-assisted housing programs.

Guidelines: The following guidelines are to be applied when determining how much to exclude when calculating annual income.

. The $2,000 exclusion applies on a per-person, per-annum basis -- not on a per-family, per-household or a one-time-only basis. This method of application is consistent with the HUD requirement that income is consistent with the HUD requirement that income is determined and reexamined on a 12-month basis, and that per-capita distributions are per-person distributions.

Example - Per Capita Income

All adults in the household receive a $2,500/year per-capita distribution, and each minor receives $500/year. In total, this four-person family receives $6,000, but only $1,000 is counted as income because of the $2,000 exclusion.

	Received	Counted
Head	$2,500	$ 500
Spouse	2,500	500
Child	500	0
Child	500	0
	$6,000	$1,000

o The exclusion is available only up to the amount of the income received. For example, if a person receives a judgment fund distribution of $1,000 and a per-capita share of $500 during the year, the exclusion to be applied is $1,500 -- not $2,000.

o Any family member who receives a distribution receives the exclusion. Funds received on behalf of a minor child by another (for example, a parent or guardian) would also qualify for the exclusion. If a minor child has unearned income from a per-capita payment or judgment fund distribution, then the exclusion is available to the child.

Are Distributions Considered Income or Assets? Depending on how the distributions are made, they could be considered: (1 sporadic income that is not counted, (2) income that is counted, or (3) lump-sum additions to assets.

If the distribution is made on a regular basis, it generally should be considered as income -- even if the amount varies from year to year.

Small amounts not received on a regular basis may be considered "sporadic" income that is not counted. Significant amounts not received on a regular, annual basis should be considered lump-sum additions to assets. The IHA should specify in the Admissions and Occupancy (A&O) Policy threshold amounts for this determination.

3.5 DISTRIBUTIONS FROM TRIBAL GAMING ACTIVITIES

How distributions from tribal gaming activities are counted depends upon how the distributions are made. The guidance in this section provides principles that will help the IHA to determine how the distributions should be considered. IHAs may also request assistance from the area ONAP in making this determination.

Distributions Generally Are Not Considered Indian Trust or Per-Capita Funds: Gaming distributions are regulated by the National Indian Gaming Commission and the Secretary of the Interior. They generally are not considered to be Indian trust or per-capita funds as described in Section 3.4 above.

Are Distributions Considered Income or Assets? As with Indian trust and per-capita funds, this depends on how the distributions are made. They could be considered: (1) sporadic income that is not counted, (2) income that is counted, or (3) lump-sum additions to assets.

If the distribution is made on a regular basis, it generally should be considered as income -- even if the amount varies from year to year.

Small amounts not received on a regular basis may be considered "sporadic" income that is not counted. Significant amounts not received on a regular, annual basis should be considered lump sum

additions to assets. The IHA should specify in the A&O Policy threshold amounts for this determination.

3.6 CONSIDERING ASSETS IN INCOME DETERMINATIONS

Some assistance programs impose a limit on assets a family can have. There is no such asset limitation for IHA housing. However, any income from assets is considered in the calculation of annual income. To comply with HUD requirements, the IHA must know: (1) what to count as an asset, (2) how to compute the market and cash value of the asset, and (3) how to determine the income from the asset to be included in annual income. This section provides a definition of net family assets, and discusses key policies to assist the IHA in determining the value of net family assets and the amounts to be included in annual income.

What Counts as an Asset? Net family assets are defined as the net cash value after deducting reasonable costs that would be incurred in disposing of real property, savings, stocks, bonds and other forms of capital investment. Exhibit 3-4 summarizes the types of assets that are and are not considered.

Market Value and Cash Value: Assets have both a market value and a cash value.

The market value of an asset is simply its dollar value on the open market. For example, a property's market value is the amount it would sell for on the open market.

An asset's cash value is the market value less reasonable expenses (such as penalties or fees) to convert the asset to cash. For example: charges for premature withdrawal of a certificate of deposit, transaction fees for converting mutual funds, or broker and settlement fees for selling a property.

Calculating Asset Income: Income from assets is calculated in one of two ways:

- o if the cash value of the family's total assets is $5000 or less, asset income is the actual income to be derived from these assets.

- o If the cash value of the family's total assets is more than $5000, asset income is the greater of:

    - -- the actual income to be derived from the assets: or

    - -- the total cash value of the assets multiplied by a HUD-approved passbook rate. (This is called the imputed asset income.)

Assets Disposed of for Less Than Fair Market Value: Applicants who dispose of assets for less than fair market value have, in essence, voluntarily reduced their ability to afford housing. Therefore, HUD regulations require that any asset disposed of for less than fair

fair market value during the two years preceding an income determination should be counted as if the household still owned the asset.

The amount to be included as an asset is the difference between the cash value of the asset and the

Example: Asset Disposed of for Less Than Fair Market

Value

amount that was actually received (if any) in the disposition of the asset.

Each applicant must certify whether an asset has been disposed of for less than fair market value. Assets disposed of for less than fair market value as a result of foreclosure, bankruptcy, divorce or separation are not included in this calculation.

An applicant for IHA housing sold a property to a relative for $10,000 on May 1, 1996. The property was valued at $20,000 and had no loans against it.

Market Value	$20,000
Less settlement costs	-$ 1,500
Less sales price	-$10,000
Cash value to be considered	$ 8,500

The $8,500 would be counted as an asset for any income determination conducted until May 1, 1998. Even though there would be no actual income from this asset, the $8,500 would be combined with other assets and multiplied by the appropriate passbook rate to determine the amount to be counted as annual income.

3.7 WELFARE ASSISTANCE AS INCOME

Welfare assistance is counted as income. Most IHAs will use the actual gross amount of assistance the household actually receives. However, in certain as-paid localities, a special calculation is required.

As-Paid Localities: An as-paid locality is a jurisdiction where assistance for housing costs is established separately from the rest of welfare assistance and may be adjusted based upon the actual cost of the family's housing. For AFDC, several states calculate assistance in this way. Currently, these states include New Hampshire, Vermont, New York and Oregon. For general assistance, the calculation is made at the county level; a number of counties calculate assistance in this way.

For welfare recipients in as-paid jurisdictions, IHAs must count the amount the family receives for other expenses plus the maximum amount the welfare agency could allow the family for shelter and utilities.

3.8 INCOME VERIFICATIONS

To ensure that eligibility determinations are made accurately, the IHA must verify both the household's income and assets. The three methods for verifying income and assets are described below. (Sample verification forms are included in Appendix 2).

Third-Party Written Verifications: These are preferred. The applicant/resident submits income information to the IHA. The IHA then verifies this information with the appropriate third party (bank, employer, etc.). It is acceptable for third parties to fax verifications to the IHA.

Document Verification: This is appropriate in circumstances in which applicants/residents can provide acceptable documentation that clearly demonstrates their income and assets. Examples of acceptable documentation include paycheck stubs, certified copies of tax returns, bank statements and copies of legal documents (for example, court-awarded child care payments).

Oral (Telephone) Verifications: These may be used if written verifications are not feasible. The IHA should complete, sign and date a form identifying the third-party oral source and the information provided.

PART II: CALCULATING ADJUSTED INCOME

3.9 ADJUSTMENTS TO ANNUAL INCOME [24 CFR 950.102]

Adjusted income is calculated by subtracting from annual income any of six deductions (sometimes called allowances) that apply to the household. Exhibit 3-1 summarizes these deductions. Not all households are eligible for all deductions. The remainder of Part II provides guidance on verifying and calculating these amounts.

Exhibit 3-1

Allowable Deductions from Annual Income

Deduction	Elderly Households	Other (Non-Elderly) Households
Dependent Deduction	Yes	Yes
Child Care Expenses	Yes	Yes
Travel Expenses	Yes	Yes
Elderly Household	Yes	No
Medical Expenses	Yes	No
Handicap Assistance	Yes	Yes

3.10 DEPENDENT DEDUCTION

IHAs must deduct $480 from annual income for each household member who is not the head or spouse, but is:

- age 17 or younger,
- an individual with disabilities, or
- a full-time student (of any age).

The household member must

qualify for the deduction each time an income determination is made.

A family may request a reexamination of income if its status changes (for example, if the family has or adopts a child) and it now qualifies for more deductions.

Timing of a Dependent Deduction

Timing is key in qualifying for a dependent deduction. If a household member is 17 at the time the family begins to receive IHA assistance, but will turn 18 six months later; the family is eligible for a $480 deduction for this family member until the next time the household's income is re-examined.

3.11 CHILD CARE EXPENSES

Reasonable child care expenses for the care of children under age 13 are deducted from annual income if the care enables a family member to work or go to school.

Documenting Child Care Expenses: To document that the anticipated children care expenses are appropriate, the IHA may require the household to:

- identify the children for whom the care is provided;
- identify the family member who, with the child care, can work or go to school;
- demonstrate that there are no adult household members available to care for the children; and
- identify the care provider and document costs.

Child Care While Going to School

If the child care expenses are requested to enable a family member to go to school, the household must provide documentation that the household member is enrolled in a vocational program or degree-granting institution. The family member need not be a full-time student.

Limitations on Expenses: If child care expenses are requested to enable a family member to work, the expenses allowed cannot be greater than the income generated by that household member.

3.12 EXCESSIVE TRAVEL EXPENSES

IHAs may deduct reasonable amounts -- up to $25 per week for the entire household -- for travel expenses that enable household members to work or go to school. As with child care expenses, the household must identify family members who are working or participating in educational opportunities at a vocational school or degree-granting institution, and the amount of travel involved. The A&O Policy should define "excessive travel."

3.13 ELDERLY HOUSEHOLD DEDUCTION

IHAs must deduct from annual income $400 for any household in which the head or spouse is 62 years of age or older, OR is an individual with disabilities.

3.14 MEDICAL EXPENSES

Elderly households may claim a deduction for anticipated medical expenses that are: (1) not reimbursed or covered by some other source, and (2) exceed 3 percent of annual income.

Eligible Medical Expenses: Although medical expenses are permitted only for elderly households, once a household qualifies as an elderly household, the medical expenses of the entire family are considered. For example, if a household included the head (grandmother, age 63), her daughter (age 35) and her granddaughter (age 12), the medical expenses of all three family members would be considered.

Estimating Medical Expenses

One of the most challenging aspects of determining allowable medical expenses is estimating a household's medical expenses for the coming year. Some anticipated expenses can be documented easily (for example, medicare or other health insurance premiums, the cost of ongoing prescriptions and payment agreements for accumulated medical bills). For others, the IHA must make an estimate. Although they will not be the same as those for the coming year, last year's expenses may provide some guidance for estimating those for the coming year.

Typical Medical Expenses

Some typical expenses might include:

. services of physicians or other health care providers;
. services of hospitals or other health care facilities;
. medical insurance premiums;
. prescription and non-prescription medicine;
. dental expenses;
. eyeglasses and eye examinations,
. medical or health products or apparatus (hearing aids, wheel chairs, etc.).

. live-in or periodic medical care (for

example, visiting nurses or care attendants), and

. periodic payments on accumulated medical bills.

3.15 HANDICAPPED ASSISTANCE DEDUCTION

IHAs must deduct reasonable costs for the care of a handicapped person. This is designed to enable that person or another family member to work.

Limitation on Deduction: These expenses may be deducted only if:

- o they are not reimbursed from another source, such as insurance or public assistance;
- o they do not exceed the amount of income generated by family members who are age 18 or older and are enabled to work; and
- o they exceed 3 percent of annual income.

Documenting Handicapped Assistance Expenses: To document that the anticipated expenses are appropriate, the household must:

- o identify the handicapped person,
- o demonstrate that the expense enables the handicapped person or another family member to work, and
- o describe the nature of the expense and provide documentation of costs.

Applicants Who Qualify for Both Medical and Handicapped Assistance Expenses: As noted above, both medical and handicapped assistance expenses are limited to those in excess of 3 percent of annual income. For families who qualify for both types of expenses, the allowable deduction is the amount by which the combined expenses exceed 3 percent of annual income.

Exhibit 3-2

Income Inclusions

These are items to be included as income.

1. All wages and salaries, overtime pay; commissions, fees, tips and bonuses, and other compensation, for personal services (before any payroll deductions).

2. The net income from operation of a business or profession. Expenditures for business expansion or amortization of capital indebtedness shall not be used as deductions in determining net income; however, an allowance for depreciation of assets used in a business or profession may be deducted, based on straight line depreciation, as provided in Internal Revenue Service regulations. Any withdrawal of cash or assets from the operation of a business or profession will be included in income, except to the extent the withdrawal is reimbursement of cash or assets invested in the operation by the family.

3. Interest, dividends and other net income of any kind from real or personal property. Expenditures for amortization of capital indebtedness shall not be used as deductions in determining net income. An allowance for depreciation is permitted only as authorized above. Any withdrawal of cash or assets from an investment will be included in income, except to the extent the withdrawal is reimbursement of cash or assets invested by the family. Where the family has net family assets in excess of $5,000, annual income shall include the greater of the actual income derived from all net family assets or a percentage of the value of such assets based on the current passbook savings rate as determined by HUD. (Assets are discussed further in Section 3.6.)

4. The full amount of periodic payments received from Social Security, annuities, insurance policies, retirement funds, pensions, disability or death benefits and other similar types of periodic receipts, including a lump-sum payment or prospective monthly amounts for the delayed start of a periodic payment (except Social Security).

5. Payments in lieu of earnings, such as unemployment and disability compensation, workers' compensation and severance pay (see Item #3 under Income Exclusions in Exhibit 3-3).

6. Welfare assistance is income for the purpose of eligibility and rents/payments. However in some states/areas, welfare assistance includes an amount specifically designated for shelter and utilities. These grants are subject to adjustment by the welfare assistance agency in accordance with the actual cost of shelter and utilities. In these cases, the welfare assistance income to be included as income shall consist of:

   o the amount of the allowance or grant, exclusive of the amount specifically designated for shelter or utilities; plus

   o the maximum amount that the welfare assistance agency could, in fact, allow the family for shelter and utilities.

   If the family's welfare assistance is ratably reduced from the standard of need by applying a percentage, the amount calculated under this paragraph shall be the amount resulting from one application of the percentage.

7. Periodic and determinable allowances, such as alimony and child

support payments, and regular contributions or gifts received from persons not residing in the dwelling.

8. All regular pay, special pay and allowances of a member of the Armed Forces (whether or not living in the dwelling) who is head of the family, spouse or other person whose dependents are residing in the unit (however, see Item #7 under Income Exclusions in Exhibit 3-3).

HUD periodically revises the definition of income in the Federal Register. The IHA should update its definition of income whenever the Federal Register notice is published.

Exhibit 3-3

Income Exclusions

Thee items must be excluded as income.

1. Income from employment of children (including foster children) under the age of 18 years.

2. Payments received for the care of foster children or foster adults (usually individuals with disabilities unrelated to the tenant family, who are unable to live alone).

3. Lump-sum additions to family assets, such as inheritances, insurance payments (including payments under health and accident insurance and workers' compensation), capital gains and settlement for personal or property losses (however, see item #5 of income inclusions in Exhibit 3-2).

4. Amounts received by the family that are specifically for, or in reimbursement of, the cost of medical expenses for any family member.
5. Income of a live-in aide.

6. The full amount of student financial assistance paid directly to the student or to the educational institution.

7. The special pay to a family member serving in the Armed Forces who is exposed to hostile fire.

8. -- Amounts received under training programs funded by HUD;
   -- Amounts received by a disabled person that are disregarded for a limited time for purposes of Supplemental Security Income eligibility and benefits because they are set aside for use under a Plan to Attain Self-Sufficiency (PASS);
   -- Amounts received by a participant in other publicly assisted programs which are specifically for or in reimbursement of out-of-pocket expenses incurred (special equipment, clothing, transportation, child care, etc.) and which are made solely to allow participation in a specific program;
   -- Amounts received under a resident service stipend. A resident service stipend is a modest amount (not to exceed

$200 per month) received by an Indian housing resident for performing a service for the IHA, on a part-time basis, that enhances the quality of life in Indian housing (for example, lawn maintenance, fire patrol or hall monitoring). No resident may receive more than one such stipend during the same period of time (Note: If the resident receives more than $200/month, the entire amount is counted as income); or

-- Incremental earnings and benefits from state or local employment training programs and training of a family member as resident management staff. Amounts excluded by this provision must be received under employment training programs with clearly defined goals and objectives, and are excluded only for a limited period during which the family participates in the employment training program.

9. Temporary, nonrecurring or sporadic income (including gifts).

10. Reparation payments from foreign governments in connection with the Holocaust.

11. Earnings in excess of $480 for each full-time student 18 years old or older (excluding the head of household and spouse).

12. Adoption assistance payments in excess of $480 per adopted child.

13. Earnings and benefits to any family member resulting from the participation in a program providing employment training and supportive services in accordance with the Family Support Act of 1988, Section 22 of the U.S. Housing Act (the Act) of 1937, or any comparable federal, state, tribal or local law during the exclusion period.

14. Deferred period payments of Supplemental Security income and Social Security benefits that are received in a lump-sum payment or in prospective monthly amounts.

15. Amounts received by the family in the form of refunds or rebates under state or local law for property taxes on the dwelling unit.

16. Amounts paid by a state agency to a family with a developmentally disabled family member living at home, to offset the cost of services and equipment needed to keep the developmentally disabled family member at home.

17. Amounts specifically excluded by any other federal statute from consideration as income for purposes of determining eligibility or benefits under a category of assistance programs that includes assistance under the United States Housing Act of 1937.

HUD periodically publishes a Federal Register notice to identify benefits that qualify for this exclusion. The IHA should update its definition of income exclusions whenever the Federal Register notice is published.

Asset Inclusions and Exclusions

Count the following in net family assets:

- Savings accounts and the average 6-month balance of checking accounts;
- Stocks, bonds, savings certificates, money market funds and other investment accounts;
- Equity in real property or other capital investments;
- Cash value of trusts that are available to the household;
- IRA, Keogh and similar retirement savings accounts, even though withdrawal would result in a penalty;
- Contributions to company retirement pension funds that can be withdrawn without retiring or terminating employment:
- Assets that although owned by more than one person, allow unrestricted access by the applicant;
- Lump-sum receipts, such as inheritances, capital gains, lottery winnings;
- Personal property held as an investment, such as gems, jewelry, etc.;
- Cash value of life insurance policies; and
- Assets disposed of for less than fair market value during two years preceding certification or recertification.

Do NOT count the following in net family assets:

- Interest in Indian trust land and entry accounts in HUD homeownership programs;
- The value of necessary items of personal property, such as furniture and automobiles;
- Assets that are part of an active business or farming operation in which any member of the applicant/resident family is actively engaged (these assets are considered part of the business -- not personal assets);
- The value of irrevocable trusts that are not under the control of any household member; or
- The value of any asset owned by the applicant, but not effectively available to the applicant.