



## Q&A: Income Calculations and Clarifications

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**D**etermining what to include in the calculation of income for qualifying for a low-income housing tax credit (LIHTC) home can be a gray area. The following are common questions as to what items to include in the determination of income, as well as additional items to clarify and how to document them in the files.

### TheWorkNumber.Com

Question: Is The Work Number an acceptable form of income verification?

Answer: The U.S Department of Housing and Urban Development (HUD) Handbook 4350.3 allows The Work Number to verify income for certifying tenants who will reside in LIHTC developments.

However, The Work Number does not provide all of the information needed to document anticipated income. When The Work Number is used, it is important to additionally verify the following with the employer/tenant:

- frequency of gross pay (i.e., hourly, biweekly, monthly, bimonthly),
- anticipated increases in pay and effective dates, and
- overtime pay and hours

**Tip:** Verify information with the tenant after exhausting all other options (i.e., cannot reach employer, or cannot obtain paycheck stubs).

The Work Number sometimes leaves items blank such as average hours worked or frequency of gross pay. In this case, property managers should obtain paycheck stubs or clarify with the employer this information. When obtaining paycheck stubs, the HUD Handbook recommends obtaining the most recent four to six consecutive paycheck stubs within 120 days before of the effective date of the certification.

### New Employment

Question: What is the best practice if an applicant has changed jobs just before you start initial certification?

Answer: Often, applicants or current tenants start new employment right before they apply to live in the LIHTC apartments or during their time residing in the LIHTC apartment and therefore do not have historical pay records to help support their annual income.

In these cases, the property manager should ask the tenants if they had employment before their new job. If so the property manager should obtain a

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verification of termination from their prior employer to keep in the file to confirm the tenant is not receiving any income from the former employer as well as to document the exact date of termination.

When verifying the tenant's new employment, there are several options as to which documents to obtain/use, such as:

- obtain new hire letter, and clarify the following:
  - ◊ frequency of gross pay (i.e., hourly, biweekly, monthly, bimonthly),
  - ◊ anticipated increases in pay and effective dates, and
  - ◊ overtime pay and hours;
- have employer complete the state required employment verification form; or
- obtain paycheck stubs if tenant has already begun receiving payments.

Example:

Bob is applying for a LIHTC home and has to verify his employment income. His anticipated move-in date is Oct. 1, 2017. He will start a new job on Nov. 1, 2017, and provided a new-hire letter as part of his employment verification. The new-hire letter states a start date of Nov. 1, 2017, and that Bob will be paid \$10 per hour at 40 hours a week for the whole year. Additionally, the property manager obtained verification from Bob's employer detailing his hourly wage, frequency of gross pay, anticipated increases in pay and effective dates, and overtime pay and hours. The information verified was as follows:

Hourly wage: \$10/hour

Average number of hours work: 40 hours per week

Frequency of pay: biweekly

Overtime wage: \$15/hour

Average number of overtime hours work: 0 hours per week

Bob's employment income calculation:

$$\$10/\text{hour} \times 40 \text{ hours per week} \times 52 \text{ weeks} = \$20,800$$

Management can either list the full year of employment income of \$20,800 or they can prorate it by 11 months due to the one-month difference between the start date of the new job of Nov. 1, 2017, and move-in date of Oct. 1, 2017. Updated employment income would recalculate as follows:

$$\$20,800/12 \text{ months} \times 11 \text{ months} = \$19,066.67$$

Please ensure to always document attempts to obtain third-party verification and the reason the verification was not obtained as most states require this before secondary documentation is used to calculate income.

In some cases, a tenant is unemployed, but is anticipating getting a job within the next 12 months. Most unemployment affidavits have questions designed to help clarify the appropriate amount of anticipated income, if any, to be included in household income. On the following page is an example of questions listed on an Unemployed Affidavit from the Nebraska Investment Finance Authority.

Having a detailed form helps with documenting and calculating anticipated income. With this information, a property manager can easily determine what income the tenant anticipates to receive within the next 12 months. However, please check with your state agency in regard to calculating anticipated income. For example, the California Tax Credit Allocation Committee does not require calculating anticipated wages unless a definite offer of employment has been made and a start date set.

### New Adults

Question: Do you include employment income of residents who will turn 18 in the next 12 months?

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### Check applicable statement:

- I am not presently employed and do not anticipate becoming employed within the next twelve (12) months.
- I am not presently employed, and not aware of an employment start date, but anticipate becoming employed within the next twelve (12) months. Based on my past work experience, skills, and income history, I expect to earn \$ \_\_\_\_\_ /year when I become employed.
- I am not presently employed, but am aware of an employment start date of \_\_\_\_\_ at \$ \_\_\_\_\_ per (If amount is hourly, please provide number of hours per week, \_\_\_\_\_ )

Answer: The HUD Handbook states that earned income of minors (family members under 18) is not counted in the calculation of household income. However, what about the circumstances when the minor is turning 18 within the next 12 months? How should property managers consider this situation in the calculation of a household's income?

Although HUD Handbook 4350.3 is not clear on this topic, some state agencies have provided guidance on how this should be treated. As always, it is recommended to check with your state agency. A great example of how a state agency treats this situation is the Washington State Housing Finance Commission (WSHFC). The WSHFC manual states the following:

*“When determining anticipated income, count any wages to be received by any minor who will be turning 18 within the next 12 months. Begin counting the wages from the date that the person turns 18, through the remainder of the 12-month period.”*

Example:

Mandy is applying for a LIHTC apartment with an anticipated move-in date of Oct. 1, 2017. She has two children, one who is 5 and one who is 17. The 17-year-old, Billy, will turn 18 Feb. 1, 2018. Billy works at a fast food restaurant. The property manager obtained a verification of employment from Billy's employer listing out the following:

Hourly wage: \$8/hour

Average number of hours work: 40 hours per week

Frequency of pay: biweekly

Overtime wage: \$12/hour

Average number of overtime hours work: 2 hours per week

The period Oct. 1, 2017, to Feb. 1, 2018, is approximately 18 weeks out of the year that Billy will be a minor. That means, for 34 weeks, he will be over 18. His prorated income calculates as follows:

$\$8/\text{hour} \times 40 \text{ hours per week} \times 34 \text{ weeks} = \$10,880$

$\$12/\text{hour} \times 2 \text{ hours per week} \times 34 \text{ weeks} = \$816$

Total income = \$11,696

Tip: A useful website to determine the duration between two dates is [www.timeanddate.com/date/duration.html](http://www.timeanddate.com/date/duration.html).

Although HUD Handbook 4350.3 is not clear on this topic, the property manager, after consulting with the state agency, should apply a consistent method to all tenants turning 18 during the certification year. If the state agency has not provided guidance, it is recommended to calculate household income, including

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the prorated income. The property manager can include a clarification in the file stating the household's income is below the limit with or without the inclusion of the minor's income.

### Conclusion

When in doubt consult your state agency where your LIHTC development is located or reach out to a Novogradac compliance specialist. ❖

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