Tacoma Community Redevelopment Authority
Income Determination Policy Statement

As the Tacoma Community Redevelopment Authority (TCRA) receives federal funding from the City of Tacoma to utilize in furthering business, economic and housing opportunities for low-income families, it is necessary for the TCRA on behalf of the City of Tacoma to define how it will determine annual income for its various programs and activities. This policy statement only summarizes how TCRA will determine income for each person or family upon application for assistance. Additional information may be found in the regulations for Community Development Block Grant (CDBG) or HOME Investment Partnership (HOME).

Tacoma Community Redevelopment Authority is establishing this policy to ensure that applicants to its various programs and activities are treated equitably in determining whether or not applicants for federal funds meet the definition of low income. Neither TCRA or the City of Tacoma nor any of their funding recipients may elect to utilize a different income definition in order to qualify a potential applicant. Annual income is defined for all programs as the gross amount of income *anticipated* by all adults (age 18 and over) in a family or household during the 12 months following the effective date of the determination.

The U.S. Department of Housing & Urban Development annually publishes median income based on household size. A person, family or household is considered to be low-income if they are at or below 80% of the published median income for their household size. Recipients of federal funds may choose to target lower income families with their individual programs or activities. All programs and activities offered with federal funding are required to meet a National Objective of providing benefit to low-income individuals and/or families. This benefit may be achieved through (1) area benefit, (2) limited clientele benefit, (3) job creation or retention, or (4) housing benefit. Generally, TCRA's programs and activities are for job creation and housing benefits; if an area or limited clientele benefit is appropriate, staff will follow the federal regulations and guidelines for documenting that National Objective.

<u>TCRA Business Loans</u>:

Staff will maintain records for job creation activities following the criteria outlined by the federal regulations for jobs made available to low-income persons *or* for jobs held by low-income persons. In each scenario, at least 51% of the jobs to be created must be considered low-income.

When it is determined that the created jobs will be held by low-income persons, income will be calculated based on the anticipated income *prior* to the time the person was hired for the job. Staff will calculate annual income by calculating the adjusted gross income as defined for purposes of reporting under IRS Form 1040 for Federal individual income tax purposes. This income calculation is further described and outlined on the attached Exhibit "A". Staff will document income for TCRA files. In lieu of income documentation, evidence that the person qualifies as presumed low-income by their home address is sufficient in determining eligibility under job creation only.

TCRA Homebuyer Programs:

TCRA offers a variety of Homebuyer programs, directly and indirectly. For all Homebuyer programs, annual income will be calculated based on the adjusted gross income as defined for purposes of reporting under IRS Form 1040 for Federal individual tax purposes. All potential homebuyers requesting assistance will provide documentation of income through either third party verification or review of source documents (see TCRA Documentation Requirements). A copy of the prior year's federal tax return will not be considered sufficient evidence as it documents prior income, not anticipated income.

TCRA Homeowner Rehabilitation Programs:

TCRA offers a variety of homeownership rehabilitation programs, directly and indirectly. For all homeownership rehabilitation programs, annual income will be calculated based on the adjusted gross income as defined for purposes of reporting under IRS Form 1040 for Federal individual tax purposes. All homeowners requesting assistance will provide documentation of income through either third party verification or review of source documents (see TCRA Documentation Requirements). A copy of the prior year's federal tax return will not be considered sufficient evidence as it documents prior income, not anticipated income.

TCRA Shelter, Special Needs, Transitional & Permanent Rental Programs:

TCRA provides financial assistance to a variety of developers and property owners who, in turn, develop and operate housing for a variety of individuals and families. For these programs and activities, annual income will be calculated as defined at 24 CFR Part 5 and commonly referred to as the Section 8 definition. This calculation is further described and outlined on the attached Exhibit "B".

Additionally, property owners and managers of housing assisted with funding from TCRA are required to annually recertify the income of persons and families residing in housing units assisted with TCRA funding. For TCRA purposes, property owners and managers must maintain the files for a period of no less than five years.

TCRA Documentation Requirements:

All TCRA administered programs will document income-eligibility and maintain files for no less than five (5) years following final project assistance. Verifications of incomes dated no earlier than six months prior to eligibility are permitted. Households must qualify as low income at the time of occupancy or at the time the Federal funds are invested, whichever is later. Unless otherwise noted above, staff may verify and document income eligibility by:

(1) Obtaining evidence that the household/person assisted qualified under another program having income qualification criteria at least as restrictive as that used in TCRA's definitions; or

(2) Obtaining evidence that the assisted person or household is homeless; or

(3) Obtaining a verifiable certification from the assisted person that his/her family income does not exceed the applicable income limit. A copy of the prior year's federal tax return will not be considered sufficient evidence as it documents prior income, not anticipated income; or

(4) Obtain a referral from a state, county or local employment agency or other entity that agrees to refer individuals it determinates to be LMI persons based on HUD's criteria and agrees to maintain documentation supporting these determinations.

(5) Obtain evidence from third party contacts (e.g., employer, social security administration, public assistance agency or banks) through written or oral requests. A memorandum to file that notes the contact person, information conveyed and the date of call must document all oral conversations.

Prior to conducting a third-party verification, TCRA will obtain a written release from the household that authorizes the third party to release required information. If the third-party charges a fee to provide the information, that fee is considered an eligible expense under Federal programs. However, the costs must be incurred by TCRA or its sub recipient and **not** passed through to the low-income beneficiary.

(6) Obtain documents provided by the applicant (e.g. pay stubs, tax returns, bank statements, etc.). Note that if a copy of a tax return is needed, IRS Form 4506 "Request for Copy of Tax Form" must be completed and signed.

Additionally, staff will document:

- what basis on which the employee is paid: hourly, weekly, or monthly and with or without overtime;
- average number of hours worked, overtime, tips and bonuses;
- whether an employee who gets paid "Twice a month" is actually paid twice a month (24 times a year) or every two weeks (26 times a year);
- whether overtime is sporadic or a predictable component of an employee's income.

It may be necessary to verbally verify information with the third party in order to accurately project annual income.

(7) For recertification of tenant incomes, any one of the following methods may be utilized: (1) Review of income documents; (2) Statement and certification from the family indicating family size and annual income; (3) Statement from another government program.

At a minimum, TCRA requires its borrowers to recertify their tenants through a review of their income documents every sixth year of the loan.

For further information on determining income, please refer to the U.S. Department of Housing & Urban Development's manual *Technical Guide for Determining Income and Allowances for the HOME Program*, 2nd edition, dated June 1999. The criteria and formula for determining income for programs funded through CDBG are the same as for the HOME program.

Exhibit A

IRS Form 1040 Adjusted Gross Income Inclusions and Exclusions

Inclusions

1. Wages, salaries, tips, etc.
2. Taxable interest.
3. Dividends.
4. Taxable refunds, credits or offsets of State and local income taxes. There are some exceptions – refer to Form 1040 instructions.
5. Alimony or separate maintenance payments received.
6. Business income or loss.
7. Capital gain or loss.
8. Other gains or losses (i.e., assets used in a trade or business that were exchanged or sold).
9. Taxable amount of individual retirement account (IRA) distributions. Includes simplified employee pension (SEP) and savings incentive match plan for employees (SIMPLE) IRAs.
10. Taxable amount of pension and annuity payments.
11. Rental real estate, royalties, partnerships, S corporations, trusts, etc.
12. Farm income or loss.
13. Unemployment compensation payments.
14. Taxable amount of Social Security Benefits.
15. Other income. Includes: prizes and awards; gambling, lottery or raffle winnings; jury duty fees; Alaska Permanent fund dividends; reimbursement for amounts deducted in previous years; income from the rental of property if not in the business of renting such property; and income from an activity not engaged in for profit (i.e., hobby income).

Exclusions

1. Child support.
2. Money or property that was inherited, willed or given as a gift.
3. Life insurance proceeds received as a result of someone's death.

Exhibit B
24 CFR Part 5 Annual Income Inclusions and Exclusions

Income Inclusions:

1. The full amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips and bonuses, and other compensation for personal services.
2. Net income from the operation of a business or profession. Expenditures for business expansion or amortization of capital indebtedness cannot be used as deductions in determining net income. 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 in number 2 (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.
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 amount or prospective monthly amounts for the delayed start of a periodic payment (except as provided in number 14 of Income Exclusions).
5. Payments in lieu of earnings, such as unemployment and disability compensations, worker's compensations and severance pay (except as provided in number 3 of Income Exclusions).
6. Welfare Assistance. If the welfare assistance payment includes an amount specifically designated for shelter and utilities that is subject to adjustment by the welfare assistance agency in accordance with the actual costs of shelter and utilities, the amount of welfare assistance income to be included as income shall consist of:
   - the amount of the allowance or grant exclusive of the amount specifically designated for shelter or utilities; **plus**
   - the maximum amount that the welfare assistance agency could in fact allow the family for shelter and utilities. If the family welfare assistance is ratably reduced from the standard of

need by applying a percentage, the amount calculated under this paragraph is 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 organizations or from persons not residing in the dwelling.
8. All regular pay, special pay and allowances of a member of the Armed Forces (except as provided in number 7 of Income Exclusions).

Income Exclusions:

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 persons with disabilities, unrelated to the tenant family, who are unable to live alone).
3. Lump-sum additional to family assets, such as inheritances, insurance payments (including payments under health and accident insurance and worker's compensation), capital gains and settlement for personal or property losses (except as provided in number 5 of Income Inclusions).
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 (as defined in 24 CFR 5.403).
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. (a) Amounts received under training programs funded by HUD.
   (b) Amounts received by a person with a disability 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).
   (c) Amounts received by a participant in other publicly assisted programs that are specifically for, or in reimbursement of, out-of-pocket expenses incurred (special equipment, clothing, transportation, childcare, etc.) and that are made solely to allow participation in a specific program.
   (d) Amounts received under a resident service stipend (as defined in 24 CFR 5.609(c)(8)(iv).
   (e) Incremental earnings and benefits resulting to any family member from participation in qualifying state or local employment training programs (including training not affiliated with a local government) 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 the period during which the family member participates in the employment-training program.
9. Temporary, nonrecurring, or sporadic income (including gifts).
10. Reparation payments paid by a foreign government pursuant to claims under the laws of that government by person who were persecuted during the Nazi era.

11. Earnings in excess of $480 for each full-time student 18 years old or older (excluding the head of household or spouse).
12. Adoption assistance payments in excess of $480 per adopted child.
13. For public housing only, the 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 1937 Act (43 U.S.C. 1437t), or any comparable federal, state or local law during the exclusion period.
14. Deferred periodic amounts from SSI and Social Security benefits that are received in a lump sum amount 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 paid on the dwelling unit.
16. Amounts paid by a state agency to a family with a member who has a developmental disability and is living at home to offset the cost of services and equipment needed to keep this 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 any program to which the exclusions of 24 CFR 5.609(c) apply, including:
    - The value of the allotment made under the Food Stamp Act of 1977;
    - Payments received under the Domestic Volunteer Service Act of1973 (employment through VISTA, Retired Senior Volunteer Program, Foster Grandparents Program, youthful offender incarceration alternatives, senior companions);
    - Payments received under the Alaskan Native Claims Settlement Act;
    - Payments from the disposal of funds of the Grand River Band of Ottawa Indians;
    - Payments from certain submarginal U.S. land held in trust for certain Indian tribes;
    - Payments, rebates or credits received under Federal Low-Income Home Energy Assistance Programs (includes any winter differentials given to the elderly);
    - Payments received under the Main Indian Claims Settlement Act of 1980 (Pub. L. 96-420, 9x Stat. 1785);
    - The first $2,000 of per capita shares received from judgments awarded by the Indian Claims Commission or the Court of Claims or from funds the Secretary of Interior holds in trust for an Indian tribe;
    - Amounts of scholarships funded under Title IV of the Higher Education Act of 1965, including awards under the Federal work-study program or under the Bureau of Indian Affairs student assistance programs, or veterans benefits;
    - Payments received under Title V of the Older Americans Act (Green Thumb, Senior Aides, Older American Community Service Employment Program);
    - Payments received after January 1, 1989, from the Agent Orange Settlement Fund or any other

fund established pursuant to the settlement in the In Re Agent Orange project liability litigation, M.D.L. No. 381 (E.D.N.Y.);

- Earned income tax credit;
- The value of any child care provided or reimbursed under the Child Care and Development Block Grant Act of 1990; and
- Payments received under programs funded in whole or in part under the Job Training Partnership Act (employment and training programs for native Americans and migrant and seasonal farm workers, Job Corps, veterans employment programs, State job training programs and career intern programs).

Asset Inclusions:

1. Cash held in saving accounts, checking accounts, safe deposit boxes, homes, etc. For savings accounts, use the current balance. For checking accounts, use the average 6-month balance.
2. Cash value of revocable trusts available to the applicant.
3. Equity in rental property or other capital investments. Equity is the estimated current market value of the asset less the unpaid balance on all loans secured by the asset and all reasonable costs (e.g., broker fees) that would be insured in selling the asset. Under HOME, equity in the family's primary residence is not considered in the calculation of assets for owner-occupied rehabilitation projects.
4. Cash value of stocks, bonds, Treasury bills, certificates of deposit and money market accounts.
5. Individual retirement and Keogh accounts (even though withdrawal would result in a penalty).
6. Retirement and pension funds.
7. Cash value of life insurance policies available to the individual before death (e.g., surrender value of a whole life or universal life policy).
8. Personal property held as an investment such as gems, jewelry, coin collections, antique cars, etc.
9. Lump sum or one-time receipts, such as inheritances, capital gains, lottery winnings, victims' restitution, insurance settlements and other amounts not intended as periodic payments.
10. Mortgages or deed of trust held by an applicant.

Asset Exclusions:

1. Necessary personal property, except as noted in number 8 Inclusions, such as clothing, furniture, cars and vehicles specially equipped for persons with disabilities.
2. Interest in Indian trust lands.
3. Assets not effectively owned by the applicant. That is, when assets are held in an individual's name, but the assets and any income they earn accrue to the benefit of someone else who is not a member of the household and that other person is responsible for income taxes incurred on income generated by the asset.
4. Equity in cooperatives in which the family lives.
5. Asses not accessible to and that provide no income for the applicant.

6. Term life insurance policies (i.e. where there is no cash value).
7. Assets that are part of an active business. “Business” does not include rental of properties that are held as an investment and not a main occupation.