8. Calculating Adjusted Income

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- Definition of Disability
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- Examples of Categorizing Households
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- Disability Deduction
- Self-Sufficiency Incentives for Persons with Disabilities
- Medical and Disability Deductions
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- Case Study: Verification of Income
  - Calculating Part 5 Annual Income from Tenant Application
  - Calculating Part 5 Annual Income Using HUD’s On-line Income Calculator
Calculating Adjusted Income

• “Annual (gross income)” is calculated to determine household income is eligible for a HOME program.

• “Adjusted income” is used to calculate:
  - PJ's subsidy and tenant's share of rent under a HOME-funded TBRA program.
  - Rent for a tenant in a HOME-assisted rental unit whose income increases above 80%.
  - Rent for a tenant if the PJ has a rental housing program in which rents are based on the household's ability to pay.
  - Household's assistance to be provided under the Uniform Relocation Act (URA) or Section 104(d) relocation requirements.
Calculating Adjusted Income (cont)

- Usually PJ’s use a "high" and "low" HOME rent method for each project HOME unit.
- HOME Program rules let PJs determine rents based on the household's ability to pay (not to exceed 30% of adjusted income). If a PJ elects this option, it must use "adjusted income" when calculating tenant rents.

Note: "adjusted income" calculation not needed for HOME homeowner/homebuyer programs.
Adjustments to Income

• Adjusted income: subtract any of five applicable deductions, ("allowances") from the household's "annual (gross) income"

• These deductions apply to eligible households regardless of the definition of "annual (gross) income" initially used to determine HOME Program eligibility:
  - Elderly or disabled household deductions
  - Dependent deductions
  - Child care expenses deductions
  - Medical expenses deductions
  - Disability assistance expenses deductions
## Deductions by Household Type

<table>
<thead>
<tr>
<th>Allowable Deductions</th>
<th>Type of Household</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Elderly</td>
</tr>
<tr>
<td>Elderly or Disabled household</td>
<td>X</td>
</tr>
<tr>
<td>Dependent</td>
<td>X</td>
</tr>
<tr>
<td>Child care</td>
<td>X</td>
</tr>
<tr>
<td>Medical expenses</td>
<td>X</td>
</tr>
<tr>
<td>Disability assistance expenses</td>
<td>X</td>
</tr>
<tr>
<td>Description</td>
<td>Amount</td>
</tr>
<tr>
<td>-------------------------------------------------</td>
<td>--------</td>
</tr>
<tr>
<td>Annual Income</td>
<td>$</td>
</tr>
<tr>
<td>Less Dependent Children</td>
<td>$</td>
</tr>
<tr>
<td>Less Child Care Expenses</td>
<td>$</td>
</tr>
<tr>
<td>Less Disability Assistance Expenses</td>
<td>$</td>
</tr>
<tr>
<td>Less Elderly or Disabled Household Expenses</td>
<td>$</td>
</tr>
</tbody>
</table>
• Some household members are excluded from the definition of “family”:
  - their incomes are not counted in the Part 5 definition of annual income
  - they cannot qualify a family for deductions or allowances when calculating adjusted income
• These include live-in aides, children of live-in aides, and foster children.
Elderly Households

• A defined elderly household is entitled to a deduction of $400

• An elderly household is any household in which:
  - The head, spouse, or sole member is 62 years of age or older
  - Two or more persons who are at least 62 years of age live together or
  - One or more persons who are at least 62 years of age live with one or more live-in aides
Elderly Households (cont)

Example:

- Juan Azul (69) and Rosa Ramirez (63) who live together

- Jane Green (92); and Thomas Miller (74) and his live-in aide (35)

Example:

- Bob and Carol Jackson (50 and 49) have taken in Bob's mother (age 70) to live with them

Because Bob's mother is not the household head or spouse, this is not an elderly household.
Disabled Households

• A defined disabled household is entitled to a deduction of $400

• A disabled household is one in which the head, spouse, or sole member is a person with disabilities

Examples:

- Fred Jones (42) and his wife Suzanne (41 and disabled)
- Carlos Blanco (age 25 and disabled)
- Daniel Jackson (35 and disabled) and his housemate Charlie Andrews (38 and disabled) and their live-in aide
Example:

- Ted and Alexis Cooper (both age 35) have a son (age 14) who is disabled

Because the son is not the household head or spouse, the household is not a disabled household
Definition of Disability

A physical, mental, or emotional impairment that:

- Is expected to be of long-continued and indefinite duration
- Substantially impedes a person’s ability to live independently; and
- Is of such a nature that such ability could be improved by more suitable housing conditions
A developmental disability- a severe, chronic disability that:

- Is attributable to a mental or physical impairment or combination of mental and physical impairments
- Is manifested before the person is age 22
- Is likely to continue indefinitely
A developmental disability- a severe, chronic disability that:

-Results in substantial function limitations in three or more of the following areas of major life activity:
  
  - self-care
  - receptive and expressive language
  - learning, mobility
  - self-direction
  - capacity for independent living
  - economic self-sufficiency; and
Definition of Disability (cont)

- A developmental disability - a severe, chronic disability that:
  - Reflects the person’s need for a combination and sequence of special, interdisciplinary, or generic care, treatment, or
  - Other services that are lifelong or extended duration
  - And are individually planned and coordinated
Family Households

- Household in which the head, spouse, or sole member is not an elderly person nor a person with disabilities

Examples:

- April Smith (age 27); Mark Jones (35) and his wife Tracy (32) and their live-in aide

- Elise Simpson (45) and her housemate Rebecca Brown (52)
Examples of Categorizing Households

- Clarify elderly or disabled household composition

Examples:

- Don and Alice Brown (45 and 46) recently took Don's mother (75) into their home. Don and Alice are the head of household and spouse. The household is a "family" household, **not** an elderly household.

- Rita Smith (75) has recently taken in her son Don and his wife Alice (45 and 46) into her home. Rita is the head of the household, so the household **is** an elderly household.
Elderly/Disabled Household Deductions

- A household that meets the definition of an elderly or disabled household:
  - Is entitled to a deduction of $400 per household
  - Only one $400 deduction is allowed even if the household is both elderly and disabled
  - Must apply distinction between "elderly/disabled" households and "family" (non-elderly/non-disabled) households
Dependent Deduction

• Each defined household dependent is entitled to a $480 deduction from a household's "annual (gross) income" when calculating "adjusted income"

• Dependent is any household member who is not the head, co-head, or spouse, but is:
  - Under the age of 18 years or
  - Disabled (of any age) or
  - A full-time student (of any age)
Dependent Deduction (cont)

- The household member must qualify for the dependent deduction at the time of income re/certification

Examples:

- Tasha is 17 years of age at the time of certification, but will turn 18 six months later. The family receives the $480 deduction

- When the household's income is recertified the following year, the family would lose the $480 deduction (unless 18-year-old Tasha is then a full-time student or disabled)
Dependent Deduction (cont)

• A household *may* request a reexamination of income if it later qualifies for more deductions (i.e., family has a baby or adopts a child).

• HOME program rules do not *require* reexamination when household composition changes before the end of the 12-month certification period. Other HUD programs used in conjunction with HOME may require reexamination whenever income or household composition changes, such as Section 8.
Child Care Deduction

• Household may deduct child care expenses for the care of a child age 12 or under from "annual (gross) income" if:
  - Child care enables an adult family member
    • to seek employment actively
    • be gainfully employed, or
    • further his/her education
    and
  - Expenses are “reasonable” and unreimbursed”
Child Care Deduction (cont)

• Look at the family's actual circumstances to determine which family member is enabled to work.

• Typically, the person with the lower income is considered the family member enabled to work.

• It is assumed that this family member would quit work to take care of the children if no child care were available.

Note: Allowed expenses cannot exceed the income generated by household member enabled to work during the period the care is provided.
Child Care Deduction (cont)

- Child Support and Alimony Payments are not Child Care Expenses:

  - There is NO deduction for alimony or child support paid to a person outside the assisted family ...

  Even if it is garnished from wages of a family member
Medical Deduction

- Elderly or disabled households may claim as a deduction unreimbursed medical expenses that are in excess of 3% of their annual (gross) income:
  - Services of a physician/health care professional
  - Services of a hospital or other health care facility
  - Medical insurance premiums
  - Prescription and nonprescription medicines
  - Dental expenses
  - Eyeglasses and eye examinations
## Medical Deduction (cont)

- Elderly or disabled households may claim as a deduction unreimbursed medical expenses that are in excess of 3% of their annual (gross) income:
  - Live-in or periodic medical care assistance (such as visiting nurses or care attendants)
  - Medical or health products or apparatus (such as hearing aids or batteries)
  - Periodic payments on accumulated medical bills
Medical Deduction (cont)

- Once a household qualifies as an elderly or disabled household, the medical expenses of all household members are considered.
  - Some households may qualify for deductions of BOTH medical expenses and disability assistance expenses.

NOTE: Allowable medical expenses are established at income certification.

- A household receiving TBRA may request a reexamination of medical expenses if a major illness or emergency would significantly affect the anticipated amount.
Anticipating Medical Expenses

• Some easily documented anticipated medical expenses:
  - Medicare and other medical insurance premiums
  - Cost of ongoing prescriptions
  - Payment agreements for accumulated medical bills

• Use this documentation whenever possible

• For "general" medical expenses (such as prescription and nonprescription medicines), using the previous year's expenses is acceptable unless anticipated higher expenses are documented
Anticipating Medical Expenses (cont)

• When is using the previous year's medical expenses not appropriate?

Examples:

- The Garcia family had medical expenses last year for a child’s appendectomy. This is not expected to be repeated.

- Mr. Garcia recently was diagnosed as having diabetes and expects new medical costs this coming year.
Disability Deduction

- Disability assistance expenses can be deducted if they exceed 3% of household “annual income”

- Disability assistance expenses may include:
  - the cost of a care attendant and/or
  - auxiliary apparatus that enables a household member, including the disabled member, to work
Disability Deduction (cont)

- Expenses may be deducted if and only if all of the following conditions are met:
  1. They are reasonable
  2. They are not reimbursed from another source (such as insurance)
  3. They enable a household member to work
  4. They do not exceed the amount of income generated by the person enabled to work, and
  5. They are in excess of three percent of annual income
Disability Deduction (cont)

Examples:

-Jane and John Doe have a disabled 17-year-old son (John, Jr.). Jane can go to work if a care attendant takes care of John, Jr. The cost of the care attendant would be an eligible disability assistance expense.

-Sue Peters, age 40, uses a wheelchair and a specially adapted automobile. Her income comes from a disability pension. The costs of the wheelchair and the adaptations to the automobile are not eligible disability assistance expenses because no family member is enabled to work.

Sue's disability does, however, qualify her as a disabled head of household. Thus, she may be entitled to a medical expenses deduction for the wheelchair (but not the adaptations to the automobile.)

Some households may qualify for deductions of both disability assistance expenses and medical expenses.
Both Medical & Disability Deductions

- Both medical expenses and disability assistance expenses are limited to those in excess of 3% of annual income

- For families who qualify for both types of expenses, the allowable amount is the amount by which the combined expenses exceed 3% of annual income

- Since disability assistance expenses are subject to an income cap, a special calculation is required to determine the allowable deductions:
  
  • First calculate the allowable disability assistance expenses
  
  • Then add the allowable medical expenses up to a total of 3% of annual income
HUD Notice PIH 2004-11

• Issued by HUD on July 15, 2004

• Addresses calculation of annual household income under certain HUD programs

• Notice and Medicare Prescription Drug Card program do not affect calculation of annual income under Part5

• Calculation of annual or adjusted income for the purposes of HOME eligibility is not affected
## Adjustments to Annual Income

<table>
<thead>
<tr>
<th>Annual Income</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Less Dependent Children</td>
<td>$</td>
</tr>
<tr>
<td>Less Child Care Expenses</td>
<td>$</td>
</tr>
<tr>
<td>Less Disability Assistance Expenses</td>
<td>$</td>
</tr>
<tr>
<td>Less Elderly or Disabled Household Expenses</td>
<td>$</td>
</tr>
<tr>
<td>Less Medical Expenses</td>
<td>$</td>
</tr>
<tr>
<td><strong>Adjusted Income</strong></td>
<td>$</td>
</tr>
</tbody>
</table>

**Example:**

<table>
<thead>
<tr>
<th>Annual Income</th>
<th>$20,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less Dependent Children</td>
<td>$480</td>
</tr>
<tr>
<td>Less Child Care Expenses</td>
<td>$200</td>
</tr>
<tr>
<td>Less Disability Assistance Expenses</td>
<td>$</td>
</tr>
<tr>
<td>Less Elderly or Disabled Household Expenses</td>
<td>$</td>
</tr>
<tr>
<td>Less Medical Expenses</td>
<td>$</td>
</tr>
<tr>
<td><strong>Adjusted Income</strong></td>
<td>$19,320</td>
</tr>
</tbody>
</table>
Case Studies:
Verification of Income

- Calculating Part 5 Annual Income from Tenant Application
- Calculating Part 5 Annual Income Using HUD’s On-Line Calculator
# Calculating Annual Income (cont)

## Case 1: Calculating Census Long Form Annual Income

<table>
<thead>
<tr>
<th>Family Members</th>
<th>Position in Family</th>
<th>Income Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adrian Marshall</td>
<td>Head</td>
<td>Earns $400/week as an airline employee.</td>
</tr>
<tr>
<td>Penny Marshall</td>
<td>Spouse</td>
<td>Earns $16,000/year as an administrative assistant with an insurance company</td>
</tr>
<tr>
<td>Shirley Marshall</td>
<td>Child</td>
<td>Earns $7.00/hour working in a retail store at the mall. Works an average of 24 hours/week. Full-time student at the local community college.</td>
</tr>
</tbody>
</table>
Household Assets:

- Adrian and Penny’s joint non-interest-bearing checking account has an average 6-month balance of $700.

- Penny Marshall has a savings account with a $2,500 balance. The account earned interest of $72 last year.

- The family recently received an insurance settlement of $20,000.
Calculating Annual Income (cont)

Calculating Census Long Form Annual Income

<table>
<thead>
<tr>
<th>Family Members</th>
<th>Wages/ Salaries</th>
<th>Asset Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adrian</td>
<td>$20,800</td>
<td></td>
</tr>
<tr>
<td>Penny</td>
<td>$16,000</td>
<td>$72</td>
</tr>
<tr>
<td>Shirley</td>
<td>$8,736</td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td>$45,536</td>
<td>$72</td>
</tr>
</tbody>
</table>

Total Anticipated Annual Income $45,608
Calculating Census Long Form Annual Income

This family is eligible for assistance.
Its total income of $45,608 is below the Low-Income Limit of $53,650.

Explanation

- Adrian’s income is $400/week x 52 weeks/year, or $20,800.

- Penny’s income is $16,000/year and she received $72 in interest on the savings account.

- Shirley Shirley earns $7.00/hour x 24 hours/week x 52 weeks/year, or $8,736.

Note: Even though Shirley is a full-time student, her full income is included in the Census Long Form definition of income. The insurance settlement is excluded under the Census Long Form definition of annual income. The checking account is not included because it earns no interest.
## Case 1: Calculating IRS Long Form Annual (Gross) Income

<table>
<thead>
<tr>
<th>Family Members</th>
<th>Position in Family</th>
<th>Income Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bernard Williams</td>
<td>Head</td>
<td>Bernard owns a contracting business. The net income from the business is 32,000.</td>
</tr>
<tr>
<td>Amy Moynihan</td>
<td>Girlfriend</td>
<td>Amy receives alimony of $200/month and child support of $350/month for her two sons.</td>
</tr>
<tr>
<td>Gary Moynihan</td>
<td>Son</td>
<td>None</td>
</tr>
<tr>
<td>Charles Moynihan</td>
<td>Son</td>
<td>None</td>
</tr>
</tbody>
</table>
Calculating Annual Income (cont)

Household Assets:

- Bernard’s checking account has an average six month balance of $1,725. He earned interest of $100 last year.

- Amy has a savings account with a $500 balance. This account earned $17 in interest last year.
Calculating Annual Income (cont)

Calculating IRS Long Form Annual (Gross) Income

<table>
<thead>
<tr>
<th>FROM IRS FORM 1040</th>
<th>Bernard</th>
<th>Amy</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Wages, salaries, tips</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Taxable interest</td>
<td>$100</td>
<td>$17</td>
<td>$117</td>
</tr>
<tr>
<td>3. Dividend income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Taxable refunds/ credits/offsets of state/ local income taxes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Alimony received</td>
<td>$2,400</td>
<td></td>
<td>$2,400</td>
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<tr>
<td>6. Business income (or loss)</td>
<td>$32,000</td>
<td></td>
<td>$32,000</td>
</tr>
</tbody>
</table>

Total Adjusted Gross Income $34,517
Calculating Census Long Form Annual Income

This family is eligible for assistance. Its total income of $34,517 is below the Very Low-Income Limit of 39,250.

Explanation

- Bernard’s business income of $32,000 is included. Interest income of $100 is included as interest.

- Amy ‘s alimony of $200/month x 12 = $2,400 is included. The $17 in interest income is included as income. The child support is not included as income under the IRS definition of adjusted gross income.