

INCOME CALCULATION GUIDE (HOTMA COMPLIANT)

The City of Boise follows the Part 5 income calculation rules, which are based on the federal guidelines found at 24 CFR § 5.609 and further expanded and clarified in HUD Guidebook 4350.3 REV-1: Chapter 5. Calculating income requires identifying all the sources and amounts of income that a household receives each year. Income can come from common sources like wages or Social Security, or less common sources like income from assets or regular financial support from family outside the home. This guide explains how income is calculated for housing and public services programs, using both regular earnings and income from assets, following HUD rules.

A household's current income is used to anticipate what they will earn over the next twelve months. By determining the average earnings from the past two months, the amount a household is likely to make in the upcoming year can be estimated. There are three categories of income that need to be considered: Earned Income, Unearned Income, and Income from Assets.

Whose Income Is Counted?

There are certain members of a household whose income is not considered when calculating annual gross income. The incomes of foster children or adults, and live-in aides are not considered a part of the household's annual income. The incomes of all other household members are considered a part of the household's annual income, with a few exceptions depending on whether the income is considered earned or unearned.

TYPES OF INCOME

Earned Income (24 CFR § 5.100)

Earned income is **gross** income from wages, tips, salaries, other employee compensation, and net income from self-employment. Earned income does not include any pension or annuity, transfer payments (meaning payments made or income received in which no goods or services are being paid for, such as welfare, social security, and governmental subsidies for certain benefits), or any cash or in-kind benefits.

The earned income of every head of household and person that is 18 years of age or older is counted towards total household income. An emancipated minor under the age of 18 qualifies as a head of household, thus their earned income is also counted.

Unearned Income (24 CFR § 5.100)

Unearned income is any income a household receives that is not included in the definition of earned income. The unearned income of all household members is included, even from children under the age of 18. Most often, these sources are:

- Social Security, pension, retirement, and disability payments.
- Military benefits.
- Alimony and child support payments.
- Unemployment benefits and Worker's Compensation.

Any other regular money received, including cash from family members.

Income from Assets

Any **assets** a household owns and the income they may generate are also reviewed.

What is an Asset?

Assets are items of value that may be turned into cash. Some assets generate income, like a savings account or rent from an investment property, and others do not, like a vacant plot of land or a recreational vehicle.

Necessary personal property is not considered as an asset – this includes items like clothing, a vehicle used to get to and from work or school, or a primary residence (manufactured/mobile homes have some exceptions). Other items that are considered assets include but are not limited to:

- Bank accounts
- Cash on hand
- Property (like land or recreational vehicles)
- Revocable trust funds under the household's control

Common items that are not included as assets might be:

- Retirement accounts (IRA, 401(k), etc.)
- Education or Disability support savings accounts (under Internal Revenue Code sections 529, 529A, 530, “baby bond” accounts)
- Necessary personal property (primary residence, vehicle for commute, clothing, etc.)
- The combined value of all non-necessary personal property if the total value does not exceed a specific threshold¹
- Real property that the household does not have the legal authority to sell

Determining Net Family Asset Value:

Before any income from assets can be tallied, the family's net asset value must be determined. To calculate the net asset value:

- Add up the value of all Non-Necessary Personal Property the family owns (A).
 - If the total value is equal to or less than the current threshold, record the total as \$0.00.
 - If the total value is greater than the current threshold, record the actual total.
- Add up the value of all Real Property (B).
- Subtract the value of any federal tax return or refundable tax credit the family received within the past 12 months (C).
- If $A + B - C$ is equal to or less than the threshold, count only actual income generated by the family's assets.
- If $A + B - C$ is greater than the threshold, count the actual income generated by the family's assets and impute income for any assets whose income cannot be determined.

¹ HUD will adjust annually in accordance with the Consumer Price Index for Urban Wage Earners and Clerical Workers (24 CFR 5.609(a)(2)). 2025 asset threshold is \$51,600 and passbook rate is 0.45%. <https://www.huduser.gov/portal/datasets/inflationary-adjustments-notifications.html>

Imputed Income from Assets:

Part 5 requires a household to account for any actual income generated from assets held by members in the home. Additionally, if the total cash value of all assets held by the household exceeds the current threshold, the income of any asset without a determinable return is estimated using a passbook savings rate, set annually by HUD. A determinable return is any amount that can be calculated, even if that amount is zero. For example: a checking account with a 0% interest rate is a determinable return of \$0; cash “under a mattress” has no determinable return and would be subject to the passbook savings rate calculation if the total asset value of the household exceeds the threshold.

What is Cash Value?

The cash value of an asset is the market value minus any costs incurred to turn it into cash, such as penalties for premature withdrawal, broker and legal fees, and settlement costs for real estate transactions. For example: a family has a certificate of deposit (CD) in the amount of \$5,000 paying interest at 4%. The penalty for early withdrawal is three months of interest.

$$\begin{aligned} \$5,000 \times 0.04 &= \$200 \text{ in annual income} \\ \$200/12 \text{ months} &= \$16.67 \text{ interest per month} \\ \$16.67 \times 3 \text{ months} &= \$50.01 \\ \$5,000 - \$50 &= \$4,950 \text{ cash value of CD} \end{aligned}$$

Annual Income Exclusions

There are specific types or sources of income that are excluded and must not be considered when calculating a household's annual gross income. A complete list of these exclusions from income is located at 24 CFR § 5.609(b). Some of the most common exclusions include:

- Insurance payments for personal or property losses
- Student financial aid (except any amount that exceeds the actual costs of tuition, books and supplies, fees, and room and board, which is counted)
- Income of dependent full-time students which exceeds the amount of the current dependent deduction (detailed below)
- Special pay to a member of the Armed Services who is exposed to hostile fire. Hazardous duty pay is considered income.
- Amounts received by a participant in other publicly assisted programs which are specifically for, or in reimbursement of, out-of-pocket expenses incurred (e.g., special equipment, clothing, transportation, childcare, etc.) and which are made solely to allow participation in a specific program
- Deferred periodic amounts from Supplemental Security Income and Social Security benefits that are received in a lump sum amount or in prospective monthly amounts, or any deferred Department of Veterans Affairs disability benefits that are received in a lump sum amount or in prospective monthly amounts

- Loan proceeds (the net amount disbursed by a lender to or on behalf of a borrower, under the terms of a loan agreement) received by the family or a third party (e.g., proceeds received by the family from a private loan to enable attendance at an educational institution or to finance the purchase of a car)
- Nonrecurring income, which is income that will not be repeated in the coming year, such as:
 - Direct Federal or State payments intended for economic stimulus or recovery
 - Gifts for holidays, birthdays, or other significant life events or milestones
 - Non-monetary, in-kind donations, such as food, clothing, or toiletries, received from a food bank or similar organization
 - Lump-sum additions to net family assets, including but not limited to lottery or other contest winnings
 - Income received from any account under a retirement plan recognized as such by the Internal Revenue Service, including individual retirement arrangements (IRAs), employer retirement plans, and retirement plans for self-employed individuals; except that any distribution of periodic payments from such accounts shall be income at the time they are received by the family

Adjusted Income

Certain HUD and local programs use a household's adjusted income (24 CFR § 5.611) when a household's rent payment is based on a percentage of their monthly income. Adjusted income is the household's annual gross income after certain deductions are applied. The list of deductions is broken into mandatory deductions and additional deductions.

Mandatory deductions are outlined below; information on additional deductions can be found at 24 CFR § 5.611(b).

- \$480 for each dependent²
- \$525 for any elderly family or disabled family²,
- The sum of the following, if the sum exceeds ten percent of annual income:
 - Unreimbursed health and medical care expenses of any elderly family or disabled family; and
 - Unreimbursed reasonable attendant care and auxiliary apparatus expenses for each member of the family who is a person with a disability, to the extent necessary to enable any member of the family (including the member who is a person with a disability) to be employed. This deduction may not exceed the combined earned income received by family members who are 18 years of age or older and who are able to work because of such attendant care or auxiliary apparatus; and
 - Any reasonable childcare expenses necessary to enable a member of the family to be employed or to further his or her education

² Amount will be adjusted by HUD annually in accordance with the Consumer Price Index for Urban Wage Earners and Clerical Workers, rounded to the next lowest multiple of \$25. <https://www.huduser.gov/portal/datasets/inflationary-adjustments-notifications.html>

CALCULATING INCOME

Projected Annual Gross Income for the household will be calculated according to the following:

- For each individual source of income (i.e., employment, Social Security, etc.), the sum of the prior two months of income payments will be divided by the total number of income payments received, then that amount will be multiplied by the number of anticipated annual payments based on frequency as per the chart below.

If the income is paid...	Average will be multiplied by:
Monthly	12
Bi-monthly (2x/month)	24
Every two weeks	26
Weekly	52

- Income for self-employed individuals will be determined by the net income found on the prior year's federal tax return (as shown on Schedule C, Line 31 of the federal tax return).
- Income from assets owned by the household is also included in gross annual income. When an asset generates *actual* income, that income is counted. When a household's total asset value exceeds the then current asset threshold as determined annually by HUD, the income from any asset that does not have a determinable income is imputed using the then current passbook savings rate which is also determined annually by HUD.
 - Assets with determinable incomes are those that generate actual income, such as a rental property, or a bank account with an interest rate **even if the interest rate is 0%**.
 - Assets with an indeterminable income are those that do not generate actual income or have an interest rate associated with them, such as an heirloom jewelry collection or a recreational vehicle.
- Any known or anticipated change in income (i.e., recent loss of employment income or new individuals joining the household) must be documented in the file.
 - Additional household income may impact program qualification. At the time of loan closing, all household income must be documented and factored into the eligibility calculation.
 - A documented, verifiable loss or reduction in income can also be considered, if the applicant was previously ineligible due to being over income for the program.

Annual Median Income

Once the household's gross annual income has been calculated, the family size is used to determine the household's Area Median Income (AMI) level. Income levels are updated by HUD each year. For up-to-date incomes, go to

<https://www.cityofboise.org/departments/planning-and-development-services/housing-and-community-development/income-guidelines/>.

TIME PERIOD USED FOR CALCULATION

All amounts that go to any household members or are anticipated to be received from a source outside the household during the upcoming 12-month period will be included in the calculation. This includes amounts derived from assets that a household member has access to during the 12-month period. Households must meet the income qualification at the time loan documents are signed. If more than six (6) months have passed between application and document signing, updated income documentation must be provided to verify eligibility.