



Multi-Family Housing Programs Deductions to Income Compliance

U.S. Department of Housing and Urban Development (HUD) Chapter 5 Focus

TOPICS

- Medical expenses
- Difficult assets
- Verification

MEDICAL EXPENSES

Regulations:

- 7 CFR 3560.153 Calculation of Household Income & Assets
 - Annual income will be calculated in accordance with 24 CFR 5.609
 - Adjusted income will be calculated in accordance with 24 CFR 5.611
- HUD Handbook 4350.3 - Chapter 5 including exhibits for Chapter 5
- RD Handbook 3560-2 – Chapter 6

MEDICAL EXPENSES

Adjusted Income:

- Determine whether an applicant or tenant is eligible.
- Determine the amount of Rental Assistance the household is eligible to receive.
- Elderly Household Deduction:
 - Single \$400 deduction is made from annual income.
 - Consideration for elderly – Head of household, spouse or sole member of a household who is party to the lease must be 62 years of age or older, or an individual with a disability.

MEDICAL EXPENSES

- Include anticipated expenses for family members for next 12 months.
- HUD handbook, section 5-10 D. 4. allows you to use prior 12 months as a basis for the projection.
- Can include prior non-reoccurring expenses if not already considered in prior cert (unless new tenant).

MEDICAL EXPENSES

Document Tenant File

- Worksheet helpful
- Calculator tape helpful
- Clarification

Exhibit 5-3 from HUD handbook is a great guide.

MEDICAL EXPENSES

Type of Medical Expense	May Include	Verification
Services of recognized health care professionals	Services of physicians, nurses, dentists, opticians, mental health practitioners, osteopaths, chiropractors, Christian Science practitioners, and acupuncture practitioners	Best: Prior 12 mos. actual Good: Statement from provider on anticipated expense for next 12 mos.
Services of health care facilities; laboratory fees, X-rays and diagnostic tests, blood, oxygen	Hospitals, health maintenance organizations (HMOs), laser eye surgery, out-patient medical facilities, and clinics	Best: Prior 12 mos. actual Good: Statement from provider on anticipated expense for next 12 mos.
Alcoholism and drug addiction treatment		Situational

MEDICAL EXPENSES

Type of Medical Expense	May Include	Verification
Medical insurance premiums	Expenses paid to an HMO; Medicaid insurance payments that have not been reimbursed; long-term care premiums (not prorated)	Best: Statement from provider showing current premium. Current SS statement showing deduction for Medicare.
Prescription and nonprescription medicines	Aspirin, antihistamine only if prescribed by a physician for a particular medical condition	Best: Prior 12 mos. actual expenses Good: Calculated expense based on current price and anticipated quantity
Transportation to/from treatment and lodging	Actual cost (e.g., bus fare) or, if driving in a car, a mileage rate based on IRS rules or other accepted standard	Best: Prior 12 mos. Actual expense Good: Calculated based on cost and # of trips.

MEDICAL EXPENSES

Type of Medical Expense	May Include	Verification
Medical care of permanently institutionalized family member IF his/her income is included in Annual Income		
Dental treatment	Fees paid to the dentist; x-rays; fillings, braces, extractions, dentures	Best: Prior 12 mos. actual expenses Good: Statement from provider on anticipated expense for next 12 mos.
Eyeglasses, contact lenses		Best: Prior 12 mos. actual expenses Good: Statement from provider on anticipated expense for next 12 mos.

MEDICAL EXPENSES

Type of Medical Expense	May Include	Verification
Hearing aid and batteries, wheelchair, walker, artificial limbs, Braille books and magazines, oxygen and oxygen equipment	Purchase and upkeep (e.g., additional utility costs to tenant because of oxygen machine [in properties with tenant paid utilities only])	Best: Prior 12 mos. actual Good: Statement from provider on anticipated expense for next 12 mos.
Attendant care or periodic medical care	Nursing services, assistance animal and its upkeep	Best: Prior 12 mos. actual Good: Statement from provider on anticipated expense for next 12 mos.
Payments on accumulated medical bills	Scheduled payments (do not include if full amt of bill has already been considered)	Statement from provider Or repayment agreement w/ proof of payments made

MEDICAL EXPENSES

Type of Medical Expense	May Include	Verification
Cosmetic Surgery	<p>Do not include in medical expenses amounts paid for unnecessary cosmetic surgery. This applies to any procedure that is directed at improving the patient's appearance and does not meaningfully promote the proper function of the body or prevent or treat illness or disease. Procedures such as face-lifts, hair transplants, hair removal (electrolysis), and liposuction generally are not deductible. **However, if medical complications, e.g., infections, etc., occur as a result of the procedure that requires medical treatment, the medical treatment expenses would be treated as a medical expense deduction.**</p> <p>Amounts paid for cosmetic surgery may be deducted if necessary to improve a deformity arising from, or directly related to, a congenital abnormality, a personal injury resulting from an accident or trauma, or a disfiguring disease.</p>	<p>Best: Prior 12 mos. actual</p> <p>Good: Statement from provider on anticipated expense for next 12 mos.</p>

MEDICAL EXPENSES

Type of Medical Expense	May Include	Verification
Health club dues	Do not include in medical expenses the cost of membership in any club organized for business, pleasure, recreation, or other social purpose, such as health club dues, YMCA dues, or amounts paid for steam baths for general health or to relieve physical or mental discomfort not related to a particular medical condition.	With verification of medical need from health care provider, verify current cost of service from provider.
Household help	Do not include in medical expenses the cost of household help, even if such help is recommended by a doctor. However, certain expenses paid to a person providing nursing-type services may be deductible as medical costs. Also, certain maintenance or personal care services provided for qualified long-term care can be included in medical expenses.	Verify eligibility of expense. Get statement from provider. Can use prior 12 months if appropriate.

MEDICAL EXPENSES

Type of Medical Expense	May Include	Verification
Medical savings account (MSA)	Do not deduct as a qualified medical expense amounts contributed to an Archer MSA	
Nutritional supplements, vitamins, herbal supplements, natural medicines	Do not include in medical expenses the cost of nutritional supplements, vitamins, herbal supplements, natural medicines, etc., unless they are recommended in writing by a medical practitioner licensed in the locality where practicing. These items must be recommended as treatment for a specific medical condition diagnosed by a physician or other health care provider licensed to make a diagnosis in the locality where practicing. Otherwise, these items are taken to maintain ordinary good health, and are not for medical care.	Verify eligibility of expense Prior 12 mos. actual expenses Good: Calculated expense based on current price and anticipated quantity

MEDICAL EXPENSES

Type of Medical Expense	May Include	Verification
Personal use items	<p>Do not include in medical expenses an item ordinarily used for personal, living, or family purposes unless it is used primarily to prevent or alleviate a physical or mental defect or illness. For example, the cost of a wig purchased upon the advice of a physician for the mental health of a patient who has lost all of his or her hair from disease or incontinence supplies can be included with medical expenses</p>	<p>Verify eligibility of expense</p> <p>Best: Prior 12 mos. actual</p> <p>Good: Calculated expense based on current price and anticipated quantity</p>

MEDICAL EXPENSES

Type of Medical Expense	May Include	Verification
Nonprescription medicines	Do not include in medical expenses nonprescription medicines unless they are recommended in writing by a medical practitioner licensed in the locality where practicing. These items must be recommended as treatment for a specific medical condition diagnosed by a physician or other health care provider licensed to make a diagnosis in the locality where practicing.	Verify eligibility of expense. Best: Prior 12 mos. actual Good: Calculated expense based on current price and anticipated quantity

Questions?



ASSETS

Revocable Trust:

- Asset of grantor (creator)
- Income generated by trust is actual income from asset
- Distributions to beneficiary become income to beneficiary (periodic distributions) or an asset (lump sum).

ASSETS

Non-Revocable Trust:

- Asset of grantor (creator) disposed of for less than fair market value
- If income generated by trust is paid to grantor, is treated as income.
- Distributions to beneficiary become income to beneficiary (periodic distributions) or an asset (lump sum).

ASSETS

Retirement Accounts:

- See HUD Chapter 5:
 - 5-6 L. 1 & 2: Withdrawals from an investment (including retirement accounts) received as a periodic payment are income. If benefits are received as periodic payments do not count any remaining amounts as an asset.
 - 5-6 P: Withdrawals from an investment received as a periodic payment are income. If benefits are received as periodic payments do not count any remaining amounts as an asset.

ASSETS

- 5-7G.4.a. & b: Balances in retirement accounts are assets if the money is available to a family member
- 5-7G.4.d: Include in annual income any benefits received through periodic payments.
- Exhibit 5-2 5: Retirement accounts are included as assets. If the individual is making occasional withdrawals, use the average balance for the prior 6 months.
- Exhibit 5-2 6. B. (2) & (3): Periodic payments are income and remaining balance not an asset.

ASSETS

Retirement Accounts:

- While still employed, if funds in the account are available to household without terminating employment, include as an asset the net value after consideration of penalties.
- After employment (prior to required minimum distribution, age 70 ½): Count as an asset unless family is getting periodic payments. Count periodic payments as income and do not count balance of account as an asset.

ASSETS

- To verify, obtain documentation to support periodic payments if applicable.
 - Should come from party making distributions.
 - Otherwise, verify balance of account from 3rd party.
- You can find RMD calculators online:
<https://www.tdameritrade.com/education/tools-and-calculators/required-minimum-distribution.page>

ASSETS

529 College Savings Plan:

- Treat like a savings account. Would be an asset to the custodian of the plan (the purchaser).
- When disbursed to beneficiary, would be an asset of the custodian disposed of for less than value.
- Would be treated as student financial assistance to the beneficiary (student) when disbursed provided funds are used to pay eligible education expenses.

ASSETS

529-A (ABLE—Achieving a Better Life Experience) Plan

- Treat much like a 529 for college savings. Account is an asset to account holder.
- When beneficiary is member of account holder's household, distributions have no effect—treat like withdrawal from savings.
- When beneficiary is not member of household, distributions are disposed of asset to account holder.
 - For beneficiary, distribution is income for reimbursement of medical expense for qualifying expenses or treated as gift for non-qualifying expenses.

ASSETS

Real Property:

- Determine market value
 - Assessed value vs. market value
- Determine costs to convert to cash
 - Broker fees / sales commissions
 - Closing costs (escrow, title, etc.)
- Asset value is difference
- Verify with assessors statement or other statement of value and narrative.

ASSETS

Mortgage / Deed of Trust / Contract Sale:

- The interest portion of the payment received is the actual income produced by asset.
- The cash value of the asset is the remaining principal balance on the date verified.
- May need copy of document to verify. May need amortization schedule.

VERIFYING INFORMATION

- Verifications should be current—no more than 90 days old from date of certification.
- They need to be adequate
 - Preference is 3rd party verification (VOE)
 - Second preference is to obtain copies of documentation (pay stubs, W-2, Tax return)
 - Last option is self-certification. Need to document file why unable to obtain better verification
 - Sometimes the best is to have several sources

Questions?



Multi-Family Housing Programs

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