Determining Adjusted Income

Presented by the
Single Family Housing Direct Division

USDA Rural Development
U.S. DEPARTMENT OF AGRICULTURE

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Welcome to the Section 502 Direct Loan and 504 Loan/Grant Programs training on Determining Adjusted Income. This session is conducted by the Single Family Housing Direct Division with a revision date of September 1, 2023.

The purpose of this presentation is to give viewers a basic overview of how to determine adjusted income for the 502 and 504 Single Family Housing Direct Programs.

Definition of Adjusted Income

Annual income less allowable deductions:

- Dependent
- Child care expenses
- Elderly household
- Disability assistance
- Medical expenses

The resulting, adjusted income is used to determine whether the household is income-eligible for a particular program.

ADJUSTED INCOME is annual income less the following allowable deductions: Dependent, child care expenses, elderly household, disability assistance, and medical expenses. The conditions for a deduction must be met in order for it to be applied. If no deductions apply, the household's annual income and adjusted income are the same.

Adjusted income is used to determine whether the household is income-eligible for a particular program.

To qualify for the Section 502 program, the household's adjusted income cannot exceed the low-income limit for the applicable location and household size. To qualify for the Section 504 programs, the household's adjusted income cannot exceed the very low-income for the applicable location and household size. and unlike the other income limits - the grant income limits are not banded. For the Section 502 program, adjusted income is also used to determine payment assistance.

On the checklist of items to accompany the application, the applicant is asked to provide verification of child care expenses and out of pocket medical expenses if applicable.

Dependent

The deduction for a dependent is $480 per qualified dependent.

A qualified dependent is a household member who is not the applicant or their spouse that is:

- 17 years of age or younger
- An individual with a disability
- A full-time student

The deduction for a dependent is $480 per qualified dependent. A qualified dependent is a household member who is not the applicant, co-applicant, or their spouse that is:

- 17 years of age or younger,
- An individual with a disability, or
- A full-time student

A dependent deduction is applicable for any household member who qualifies under this section, regardless of how custody is shared. Consider the information provided on Form RD 410-4, no other verification is required. For example, the child need not be listed as a dependent on the tax return in order to be a household member when they are listed on Form RD 410-4.

A foster child, unborn child, a child who has not yet joined the family, or a live-in aide cannot be counted as a dependent.

The definition of a full-time student may vary from school-to-school. In order to determine if the student is considered full-time, verify that the student is taking the minimum number of credits to be considered full-time at that school/college/university.

To calculate the deduction for the household, simply determine the number of qualified dependents and multiply that number times $480.

Dependent Deduction – Applicant Emily

Applicable Low-Income Limit: $42,400

Applicant:

Emily - 45 years old and legally blind

Dependents: Three children ages 6, 10, and 18 years old, and full-time students

Household's	
Annual Income:	$60,000
Deductions ($480 x 3) -	$ 1,440
Adjusted Income	$58,560

To show you the impact of the allowable deductions, let's examine an applicant named Emily who wishes to purchase a modest home through the Section 502 program.

The household's annual income was calculated at $60,000. The applicable low-income limit for this family of four is $42,400. The household is composed of Emily (who is 45 years of age and legally blind) and her three children (who are all full-time students: 6, 10, and 18 years of age).

Let's consider the effect of the dependent deduction on the household income. All three children are qualified dependents (under the age of 18 or a full-time student that is not a spouse). Using the standard deduction of $480/child x three dependents, results in a deduction of $1,440 from the annual income, which brings the adjusted income down to $58,560.

While this amount is still over the applicable low-income limit, there are four additional deductions besides just the dependent deduction to consider.

Child Care Expenses

Reasonable child care expenses for the care of children age 12 and under can be deducted if:

- The care enables a household member to work, actively seek employment, or go to school;
- No other adult household member is available to care for the children; and
- The expenses deducted do not exceed the income earned by the household member enabled to work. This limitation does not apply if child care allows the household member to go to school or seek employment.

Reasonable unreimbursed child care expenses for the care of children age 12 and under can be deducted if:

- The care enables a household member to work, actively seek employment, or go to school;
- No other adult household member is available to care for the children; and
- The expenses deducted do not exceed the income earned by the household member enabled to work. This limitation does not apply if child care allows the household member to go to school or seek employment.

For instance, if child care is being paid for five hours a week in order for the parent to “take a break without the kids”, that expense would not be deductible. However, if the time in daycare coincides with the time spent working, in school, and/or seeking employment (including commute/study times), then the amount paid can be used as a deduction.

Child Care Expenses (Continued)

To qualify for the deduction, the applicant must:

- Identify the children receiving the care
- Identify the household member who is enabled to work, seek employment, or attend school as a result of the care
- If the expenses enable a family member to go to school (full or part time), identify the educational institution
- Demonstrate there is no adult household member to care for the children during the hours care is needed;
- Identify the childcare provider, the hours of care provided, and the costs
- Verify the expense is not reimbursed by an agency, or individual outside the family

To qualify for the deduction, the applicant must:

- Identify the children who are receiving the care
- Identify the family member who is enabled to work, seek employment, or attend school as a result of the care.
- If the expenses enable a family member to go to school (full or part time), identify the educational institution.
- Demonstrate there is no adult household member to care for the children during the hours care is needed.
- Identify the child care provider, the hours of care provided, and the costs.
- Verify the expense is not reimbursed by an agency, or individual outside the family

It is the responsibility of the applicant to provide adequate documentation to support the child care expenses. The application will contain much of this information and is typically supplemented by evidence from the childcare provider re: the amount paid (such as a letter or billing statement on the child care provider's letterhead or a copy of the signed contract). Remember that the preferred sources of verification should be from items readily available to the applicant such as a billing statement, cancelled checks, etc. If these items are not available, then a verification form may be sent to the provider to verify the costs.

Child Care Expenses – Applicant Emily

Applicable Low-Income Limit: $42,400

Household:

Emily - 45 years old and legally blind

Three children - 6, 10, and 18 years old and full-time students

Household's Annual Income	$60,000
Dependents ($480 x 3)	- $ 1,440
Child Care Expenses	- $ 6,000
Adjusted Income	$52,560

Emily pays $500/month in childcare expenses for her two youngest children, which enables her to work full-time; the monthly childcare is fixed for the next 12 months. While Emily's eldest child is considered an adult, he is a full-time student, so he is not available to care for his siblings. Through the verification process, it is determined that Emily's childcare expenses are not reimbursed by an outside source (such as a state agency or her employer).

After also subtracting the allowable childcare expense deduction of $6,000 from the annual income - the adjusted income is reduced to $58,560. While this amount is still over the applicable low-income limit, there are three additional deductions to consider.

Quick note: Childcare expenses often differ during the school year vs. the summer and can generally be lower during the school year and higher during the summer. Through the verification process, the provider is asked to provide the average amount charged and the expected cost during the next 12 months.

Elderly Household

- Must be a party to the note and <u>at least one</u> of the following:
  - 62 years or older
  - An individual with a disability

- A single $400.00 family deduction

A household is classified as an elderly household when the applicant or co-applicant is 62 years of age or older or is an individual with a disability.

The elderly household is a single deduction, so a household where the applicant and co-applicant are both over 62 or individuals with a disability receive only one deduction per elderly household. Be sure not to confuse the process for the elderly deduction with the dependent deduction.

Certain forms of income (such as, social security disability) may be used to verify the disability. Form RD 1944-4 Certification of Disability or Handicap can be used if other readily documentation is not available.

Elderly Household – Applicant Emily

Applicable Low-Income Limit: $42,400

Household:

Emily - 45 years old and legally blind

Three children - 6, 10, and 18 years old and full-time students

Household's Annual Income	$60,000
Dependent ($480 x 3)	- $ 1,440
Child Care Expenses	- $ 6,000
Elderly Household	- $ 400
Adjusted Income	$52,160

Using the same example for our applicant Emily, let's consider the elderly household deduction for the application. Based on the information stated in the slide, the applicant does not qualify for the deduction based on age, but in reviewing page 6 of Form RD 410-4, the application, the applicant indicated that they wanted to be considered for an adjustment from household income because of a disabling condition. In this case, the applicant told you that she is legally blind.

Unlike the dependent deduction which is multiplied by the number of dependent children, the elderly household deduction is a one time, household deduction of $400.

Because the deduction is granted for an applicant 62 years of age or older, or an individual with a disability, the one time, "elderly household" deduction of $400 allowed for Emily's household.

When combined with the dependent and child care deductions, the adjusted income is now $52,160 which is still over the low income limit of $42,400 for this household.

Disability Assistance Expenses

Reasonable **expenses in excess of 3% of the household's annual income** can be deducted provided the expenses don't exceed the amount earned by the person enabled to work.

The applicant must:

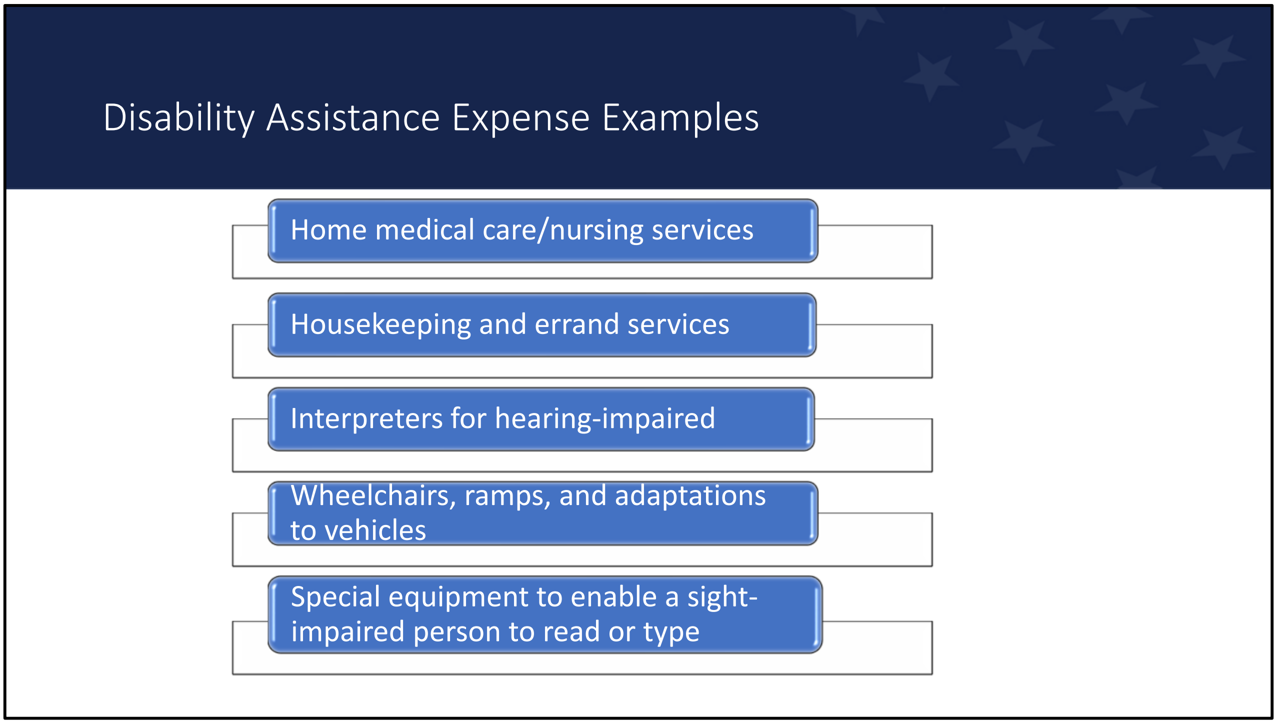
- Identify any household member with a disability on the application,
- Describe the nature and provide documentation of unreimbursed expenses for that household member's attendant care/auxiliary apparatuses,
- Demonstrate that the expenses enable an adult household member (with or without the disability) to work.

Deduction for disability assistance expenses is a deduction for unreimbursed anticipated costs for attendant care and auxiliary apparatus (including maintenance cost) for each family member who is a person with disabilities. The deduction is for reasonable expenses in excess of 3% of the household's annual income provided the expenses don't exceed the amount earned by the person enabled to work. We will cover some examples on the next slide.

The costs may be associated with the applicant to assist them to work or it may be for the care of a household member which allows the applicant to work. Again, similar to the daycare deduction, this deduction cannot exceed the amount of earned income included in the annual income for the person who is able to work as a result of the expense. The key factor is determining what items are recurring so that you can project the next 12 months' expenses.

To qualify for the deduction, the applicant must identify any household member with a disability on the application, describe the nature of unreimbursed expenses for that household member's attendant care or auxiliary apparatuses, provide documentation of the expenses, and demonstrate that the expenses enable an adult household member (with or without the disability) to work.

If the household member receives a form of income as a result of a verified disability (such as social security disability or disability compensation), that may be used as a method to verify the disability. Otherwise, the Form RD 1944-4, Certification of Disability or Handicap, or other 3rd party documents prepared by a physician or other medical professional, should be used to have a physician or other medical professional verify the household member's disability.



There are many expenses which can be considered for the disability assistance expenses deduction. Examples include but are not limited to:

- Home medical care and nursing services.
- Housekeeping and errand services.
- Interpreters for hearing-impaired.
- Wheelchairs, ramps, and adaptations to vehicles.
- Special equipment to enable a sight-impaired person to read or type.

Disability Assistance Expenses – Applicant Emily

Annual Household Income - $60,000 x 3% = $1,800

Total allowable expenses	$4,100
Minus 3% of annual income	$1,800
Equals allowable deduction	$2,300

Let's consider the disability assistance expenses for Emily.

In order to get to work, Emily has a seeing eye dog who assists her with navigating public transportation and the walk to the office. She also uses a white cane. Each month, she pays $325 for ongoing training/care of the dog and the white cane costs $100 each time she replaces it (which is typically 2x per year). Her total ongoing annual expenses are $4,100. The expenses enable her to work because without it, she would be unable to get to her office.

The first step is to calculate 3% of the household's annual income by multiplying the annual income of $60,000 x 3%, which equals $1,800.

Only the unreimbursed expenses over $1,800, that meet the qualification requirements can be used as a deduction. Emily's total allowable expenses equals $4,100. Once the $1,800 is deducted, her allowable disability assistance expenses deduction is $2,300

Disability Assistance Expenses Deduction – Applicant Emily

Applicable Low-Income Limit: $42,400

Household:

Emily - 45 years old and legally blind

Three children - 6, 10, and 18 years old and full-time students

Household's Annual Income	$60,000
Dependent	- $ 1,440
Child Care Expenses	- $ 6,000
Elderly Household	- $ 400
Disability Assistance Expenses	- $ 2,300
Adjusted Income	$49,860

Back to Emily's adjusted income calculations – by taking the disability expense deduction of $2,300, Emily's adjusted annual income is now $49,860.

While this amount is still over the applicable low-income limit, there is one additional deduction to consider.

Medical Expenses

- For elderly households ONLY – applicant or co-applicant must be:
  - 62 years or older
  - Individual with a disability
- Deduction:
  - Unreimbursed medical expenses for entire household
  - Can be combined with any disability assistance expenses
  - Expenses in excess of 3% of the household's annual income
- Expenses are anticipated and projected for the next 12 months

For elderly households ONLY - the household is classified as an elderly household when the applicant or co applicant is 62 years of age or older or an individual with a disability.

The unreimbursed medical expenses for the entire household may be deducted from annual income if the expenses (which can be combined with any disability assistance expenses) are in excess of 3% of the household's annual income.

Expenses are anticipated and projected for the next 12 months.

Unlike the disability assistance expenses which are calculated only for the person or persons with the disability, when the elderly household qualifies for the medical expense deduction, then the expenses of the **ENTIRE FAMILY** (all medical bills for the household - are considered). Much like the other expenses we have considered, the expenses cannot be reimbursable from another source.

Examples of eligible unreimbursed medical expenses include:

- Services of physicians, nurses, dentists, opticians, chiropractors, and health care facilities
- Services of hospitals, laboratories, clinics and other health care facilities
- Medical, Medicare, supplemental insurance and long-term care premiums, and expenses to Health Maintenance Organization (HMO); such as, co-payments
- Prescription drug coverage, pharmacy expenses and nonprescription medicine prescribed by a physician
- Dental expenses, x-rays, fillings, braces, extractions, dentures and examinations
- Eyeglasses, contact lenses, and eye examinations
- Medical/health products or apparatus (such as hearing aids, batteries, wheelchairs, etc.)
- Attendant care
- Periodic scheduled payments on accumulated medical bills
- The greater of the actual travel costs for medical appointments or the published Internal Revenue Service standard medical mileage rate (https://www.irs.gov/tax-professionals/standard-mileage-rates)

Handbook-1-3550, Chapter 4 contains a comprehensive listing of typical medical expenses which can be considered for the medical deduction. Expenses should be verified from third party sources such as billing statements. However, in acknowledgment of medical privacy laws, the applicant need not disclose the specific medical condition/prescription to qualify.

Remember that if the elderly household qualifies for the deduction, medical expenses of the **ENTIRE FAMILY** are considered.

Because income is always being projected for the next 12 months, it is important to consider what the actual medical expenses are for the upcoming 12 months. For instance, if a household member had a surgery which cost $10,000 last year – you would not likely include that as an expense for the next 12 months unless it was a surgery that needed to be performed every year and they paid the full amount every year. However, if the applicant had agreed to pay $150 a month to the Dr. to pay for a surgery and the balance due reflects that those will continue to be paid in the next 12 months, then you could include the $150/month payments because they are projected to continue for the next 12 months.

Medical Expenses – Applicant Emily

Unreimbursed medical expenses for the entire household:

Health insurance premiums $450/mo. x 12	= $5,400
Dr. payments for surgery $150/mo. x 12	= $1,800
Dental co-payments $75 x 4 household members x 2 times / year (every 6 months)	= $ 600
Payments for braces (18 yr. old) $75/mo. x 12	= $ 900
Eyeglasses – 1 pair/yr.	= $ 300
Monthly prescription co-payments $45 x 12	= $ 540
Total	= $9,540

Because Emily is disabled, she qualifies as an elderly household and therefore, the unreimbursed medical expenses for Emily's entire household are consider.

In this example Emily's household has the following medical expenses:

Health insurance premiums of $450/mo. x 12 mo.	= $5,400
Dr. payments for a recent surgery $150/mo. x 12 mo.	= $1,800
Dental co-payments $75 x 4 household members x 2 times / year (every 6 months)	= $ 600
Payments for braces for her 18 yr. old $75/mo. x 12 mo.	= $ 900
Eyeglasses – 1 pair/yr.	= $ 300
Monthly prescription co-payments $45 x 12	= $ 540
Total	= $9,540

We reviewed how to calculate disability expenses in excess of 3% of the annual income, but on the next slide we'll review calculating the total of all medical and disability expenses.

Medical Expenses Deduction – Applicant Emily

Applicable Low-Income Limit: $42,400

Household:

Emily - 45 years old and legally blind

Three children - 6, 10, and 18 years old and full-time students

Total Medical Expenses:	**$ 9,540**
Total Disability Expenses:	**$ 4,100**
Combined Total	$13,640
Minus 3% of income	$ 1,800
Total combined deduction for elderly household:	**$11,840**

Household's Annual Income	$60,000
Dependent	- $ 1,440
Child Care Expenses	- $ 6,000
Elderly Household	- $ 400
Medical/Disability Assistance	- $ 11,840
Adjusted Income	$40,320

In this example, since Emily's household qualified as an elderly household, we can consider both the disability and the medical expense deductions.

Based on our prior calculations for the household, we calculated 3% of the household income annual income, which is: $60,000 x 3% = $1,800

Any disability and medical expenses combined which are over 3% of the household income can be considered in the deductions.

Total Medical Expenses:	**$ 9,540**
Total Disability Expenses:	**$ 4,100**
Combined Total	$13,640
Minus 3% of income	$ 1,800
Equals allowable combined deduction for elderly household:	**$11,840**

Let's review the deductions –
The household's annual income is $60,000
Less $1,440 dependent deduction
Less $6,000 child care expenses

Less $400 for the elderly household
Less $11,840 for Medical Expenses and Disability Expenses less 3% of income

The adjusted annual income is $40,320 after deducting all allowable deductions from the annual income. This household's adjusted annual income is now within the applicable low-income limit of $42,400 and this household is income eligible for the Section 502 program.

One last point to remember about deductions is that it is up to the applicant to provide the information for those deductions. If the applicant chooses not to provide information for the deductions, that is their choice.

Adjusted Income – Program Eligibility

Compare the calculated adjusted income to the income limits for the programs which can be found at:

[Single Family Housing Eligibility Assessment - https://eligibility.sc.egov.usda.gov/eligibility/](https://eligibility.sc.egov.usda.gov/eligibility/)

(the automated calculator performs this calculation for you)

To qualify:

- 502 program - adjusted income cannot exceed the low-income limit at the time of loan approval and the applicable moderate income limit at the time of loan closing for the applicable location and household size.
- 504 programs - adjusted income cannot exceed the very low-income for the applicable location and household size.

Once you have calculated the adjusted income, compare it to the income limits for the programs which can be found on the:
[Single Family Housing Eligibility Assessment at https://eligibility.sc.egov.usda.gov/eligibility/](https://eligibility.sc.egov.usda.gov/eligibility/)
Select the “Single Family Housing Direct” tab and then the “Income Limits” tab. The displayed map shows the adjusted income limits by state, county, and household size.

Note that the automated calculator will perform this calculation for you.

To qualify for the Section 502 program, the household’s adjusted income cannot exceed the low-income limit at the time of loan approval and the applicable moderate income limit at the time of loan closing for the applicable location and household size.
To qualify for the Section 504 programs, the household’s adjusted income cannot exceed the very low-income for the applicable location and household size.

The Importance of Accurately Determining Adjusted Income

- Program Eligibility
- Payment Assistance Determination
- Loan Terms
- Authorized vs. Unauthorized Assistance

Accurately calculating and applying household deductions to arrive at the adjusted income is important in several ways:

- Adjusted income determines whether an applicant is under the program income limits. When deductions are not applied, the household income may be higher than the program limits.
- Payment assistance is based on the applicant's adjusted income.
- Adjusted income can determine whether an applicant qualifies for a 33 year or 38-year term.
- Applying more deductions than allowed could result in unauthorized payment assistance which would have to be repaid by the borrower, or even an unauthorized loan/grant.

The Loan Originator and Loan Approval Official must ensure that deductions are applied accurately before determining applicant eligibility or loan approval.

Contact Us

Are you interested in learning more about the Single Family Housing Direct Programs?

Please contact your applicable RD State Office:
https://www.rd.usda.gov/contact-us/state-offices

USDA is an equal opportunity provider, employer, and lender.

In this webinar, we have examined how to determine adjusted income which is the basis for other income calculations related to applicant eligibility.

If you are interested in learning more about the Single Family Housing Direct Programs, contact your applicable RD State Office using the link on this slide.

Finally, please note that the contents of this training are current as of this presentation's revision date. Refer to Handbook-1-3550 for the most recent guidance on the programs.

Thank you for joining us for this webinar on determining adjusted income for the Single Family Housing Direct programs.

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