RHIIP Multifamily Housing Case Studies:
A RHIIP Training Program

Multifamily Housing Case Studies

A RHIIP Training Program

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RHIIP

Pre-Training Self Test

- **While you are waiting …. take the pre-training self test**
  - A learning tool for you
  - Not a test to be graded by others
- **10 questions related to Module 5 topics**
- **Complete without looking at the training materials**
- **Time required:** About 15 minutes

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RHIIP

Introductions

- **Trainers and Facilitators**
- **Participants**

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Reasonable Accommodation

- We are committed to ensuring full access to participation
- If you need accommodation for a disability, please let the trainer/ facilitator know

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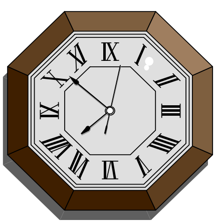
Housekeeping



- Start and ending times
- Breaks
- Rest rooms
- Personal comfort
- To-Do List
- Materials

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About the Participant Manual

- Designed for multiple purposes:
  - A course book for this class
  - A self-study training manual for individual learners
  - A reference book
- Trainer Manual is available for those who want to conduct training sessions

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Training Program Overview

- **Training and TA tool provided by Multifamily Housing in support of RHIIP**
- **Training presented in 6 modules**
  - Address key issues identified as problem areas in QC studies

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Relationship to 4350.3 REV-1

- **Training materials based on 4350.3 REV-1**
  - Supplement, not replace, handbook
  - Handbook citations provided to enable user to quickly locate expanded guidance and additional examples

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Case Studies Method

- **Case Studies enable us to:**
  - See the application of policies to individual families
  - Deal with rent calculations as they are done in real life – one family at a time.
- **Using case studies means:**
  - Not every topic is covered in each module

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Training Objectives

- **Participants will be able to:**
  - Determine income inclusions and exclusions
  - Identify assets and asset income
  - Explain and apply HUD requirements on disclosure of SSNs
  - Explain and apply HUD requirements on Citizenship/Immigration status

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Training Objectives

- **Participants will be able to:**
  - Identify and apply income deductions
  - Verify and document income and rent factors, including consent
  - Develop and use effective verification forms
  - Plan and execute effective interviewing
  - Calculate TTP, UAs, URPs, and Assistance Payments

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Technical Topics

- **Eligibility**
  - Household composition
  - Citizenship
  - Social Security Numbers
  - Consent Forms
- **Annual Income**
  - Inclusions
  - Exclusions
  - Calculations
- **Adjusted Income**
  - Dependent deduction
  - Elderly/disabled deduction
  - Disability assistance expenses
  - Child care expenses
  - Medical expenses

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Technical Topics

- **TTP, Rent and Assistance Payment Calculations**
  – Section 8
  – Section 202/811 PRAC
  – Section 202 PAC
- **Verification and Documentation**
- **Interviewing**
  – Approaches and tips
  – Questions:
    - Required
    - Recommended
    - Prohibited
  – Developing your skills as an interviewer

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The Six Modules

- **Each module covers different topics**
  For example: Module 5 addresses real estate and trusts (but not other assets)
- **Modules 1 - 5 cover technical issues**
- **Module 6 is for trainers**
- **See Appendix 1 for a summary**

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Ground Rules & Opportunities

- **Ground Rules**
  – Ask questions, but share the floor with your fellow participants
  – Focus on the topics covered in this module
- **Opportunities**
  – Get clarifications for those tricky issues
  – Share experiences with your colleagues

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Questions

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Multifamily Housing Case Studies

Module 5

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What to Expect in Module 5

- Agenda for Module 5
- Lecture, Ideas, Discussion, Case Studies, Resources and Tools
- Assessment

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Overview

- **Module 5 in a series of 6 RHIIP training modules**
- **Use of case studies, simple to complex, to practice application of HUD policies**
- **Module 5 used as self-study tool or in a formal training program**

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Module 5 Objectives

- **Participants will be able to:**
  - Identify the various elements of business income and business expenses, as well as net business income
  - Calculate business income to be included in annual income

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Module 5 Objectives

- **Participants will be able to:**
  - Determine the value of real estate as an asset, including the value of real estate sold by a family member through a mortgage or deed of trust
  - Calculate the income to be included in annual income related to the real estate

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Module 5 Objectives

- **Participants will be able to:**
  - Understand the principles of trusts, as well as the distinctions between revocable and nonrevocable trusts
  - Determine whether the value of a trust should be included as a family asset and what income from the trust should be included in annual income

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Module 5 Objectives

- **Participants will be able to:**
  - Recognize assets disposed of for less than fair market value and how such assets are counted in net family assets
  - Understand earned income tax credits (an exclusion from annual income) and recognize the ways in which a family may be receiving such tax credits

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Organization of Module 5

Part I. Business Income and Business Assets
- **Case Study 1**

Part II. Real Estate
- **Case Study 2**

Part III. Trusts as Assets

Part IV. Assets Disposed of for Less than FMV
- **Case Studies 3A and 3B**

Part V. Other Income and Asset Issues
- **Case Studies 4A, 4B and 4C**

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Part I

Business Income and Business Assets

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Overview

- **The term "business" may apply in many different circumstances**
  - A family member could be the sole owner of a business, or a partner in a business with an individual outside the family
  - A family member could be self-employed
  - Farming would qualify as operation of a business

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Overview

- **Physical location of business does not affect whether income is counted**
- **Business income may come from:**
  - Activities that are operated from assisted unit (e.g., doing hair and nails, tutoring, child care)
  - Activities that take place in multiple locations (e.g., taxi services, delivery services, handyman services)
  - Businesses operated at a separate site (e.g., store, workshop, office building)

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Overview

- **Operating a business may involve many expenses**
  - When a family member receives income from a business, the *net* income (after deducting eligible expenses) of the business is included in annual income
- **Assets from an active business are not included in calculation of *family's* net assets**

Gross Income vs. Net Income

- ***Gross income*** is the total receipts of the business before any deductions are made

Gross Income vs. Net Income

- ***Net income*** is the gross income minus:
  - Expenses associated with the operation of the business
  - Interest on qualified business loans
  - Straight-line depreciation of certain business assets

Gross Income vs. Net Income

Gross Income
– Business expenses
– Interest on qualified business loans
– Straight-line depreciation
of certain business assets
= Net Business Income

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Gross Income vs. Net Income

- **Examples of allowable business expenses found:**
  – 24 CFR 5.609(b)
  – 4350.3 REV-1, Exhibit 5-1

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Gross Income vs. Net Income

- **Example:**
  – *Gross income* for Keisha's job = $200/day
  – Keisha's *gross income* for the year is $10,400:
    $200/day x 52 days = **$10,400**
  – Keisha pays $50/day for rental of the chair and on the average spends about $500/year on supplies
  – Expenses for the year are $3,100:
    $50/day x 52 days = $2,600/year
    $2,600 + $500 = **$3,100**
  – Keisha's *net income* equals $7,300:
    $10,400 - $3,100 = **$7,300**

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Gross Income vs. Net Income

- **If net income from the business is negative, it cannot be used to offset other income the family may receive**
  - Income from a business with negative income is recorded as zero ($0)

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Business Loans

- **Business loans are a debt for the business**
- **Payment includes an amount applied to the principal portion of the debt and an amount to pay the interest owed on the debt**
  - Principal portion of the payment is used to pay back the amount borrowed
  - Interest portion of the payment is used to pay for the cost associated with borrowing the money

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Business Loans

- **Payments on principal portion of loan can never be used as deduction from gross business income to determine net business income**
  - The principal payment represents costs that are already considered
  - The individual is paying back the value of something (e.g., equipment, cash) that they have already received

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Business Loans

- **Principal payments (cont.)**
  - Example: If an individual takes a loan to pay some operating <u>expenses</u> (e.g., supplies and salaries) the business will also be using these expenses as deductions
    - To also deduct the principal of the loan as an expense would "double-count" the expense
  - Example: If an individual takes a loan to purchase a capital item (e.g., buying a warehouse), the principal payments increase the equity value of the asset
    - The principal payment cannot both add to the value of the business and be an expense to the business

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Business Loans

- **Payments on <u>interest</u> portion of some business loans may be used as deduction from gross business income to determine net business income**
  - Interest is an expense that is not otherwise considered
  - Business expenses may include the interest portion of a business loan payment (with some exceptions)

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Business Loans

- **Principal and Interest Expense – Example:**
  - Anthony owns a body shop garage
  - He has a mortgage on the garage that he pays monthly
  - Anthony is able to deduct the <u>interest</u> payment on this mortgage, but not the <u>principal</u> payment, when determining net business income

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Business Loans

- **Interest <u>cannot</u> be used as a deductible business expense if the loan payment is for a loan related to *capital improvements* or *business expansion***
- **Owner should verify purpose of any loan for which interest will be deducted by reviewing the loan documents**

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Business Loans

- **Individual with a business loan should provide an <u>amortization</u> schedule**
  - Amortization schedule specifies which portion of the monthly loan payment is <u>interest</u> and which portion is <u>principal</u>
  - Split between interest portion and principal portion of a payment will vary each month

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Capital Improvement and Business Expansion

- **Expenditures for <u>capital improvements</u> cannot be counted as a deductible business expense**
  - Capital improvements include any permanent improvements to real property (e.g., land, buildings, machinery) that increases the value and adds to the useful life of the property

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Capital Improvement and Business Expansion

- **Capital improvements (cont.)**
  - Major repairs (e.g., replacement of a roof, replacement of windows) are capital improvements
  - Costs of capital improvements to business property are "capitalized" – i.e., recorded as business assets, not expenses to the business

Capital Improvement and Business Expansion

- **Capital Improvements – Example:**
  - Anthony owns a body shop garage
  - Anthony pays to replace the roof on his garage
  - This expenditure cannot be deducted because the funds were spent for a capital improvement

Capital Improvement and Business Expansion

- **Expenditures for business expansion cannot be counted as a deductible business expense**
  - Business expansion means expenditures intended to "grow" or increase the business, beyond the current level and scope of the business

Capital Improvement and Business Expansion

- **Business Expansion – Example:**
  - Lucy owns Java on the Move – business that delivers coffee and snacks to construction sites and office buildings
  - Java has been so successful that she has decided to purchase a second van
  - Because Java is already an established business, purchase of the second van would be considered a business expansion
  - Expenditure could not be deducted because it is for a business expansion

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Capital Improvement and Business Expansion

- **Expenditures for capital improvements and business expansion usually involve a <u>business loan</u>**
  - Basic features of loan payments – principal and interest – were discussed earlier
  - Neither <u>interest</u> nor <u>principal</u> on a loan for capital improvements or business expansion could be used as an allowable deduction from gross business income

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Capital Improvement and Business Expansion

- **Expenditures for capital improvements and business expansion could be simple <u>cash outlays</u>**
  - No business loan would be involved
  - In this case, the cash expenditure could <u>not</u> be used as an allowable deduction from gross business income

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Depreciation

- Depreciation refers to the lessening of the value of an asset over time
- Under IRS tax rules, businesses can deduct depreciation for certain assets
- Two basic methods of depreciation:
  - Straight-line depreciation
  - Accelerated depreciation

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Depreciation

- Straight-line depreciation:
  - Subtract an equal amount from the value of the asset over the expected useful life of the asset
  - Asset will decrease in value at a steady rate over time

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Depreciation

- Accelerated depreciation:
  - Asset loses value at different rates (not in equal amounts) over the expected useful life of the asset
  - Asset decreases in value more quickly early in its useful life, then decreases at a slower rate later in its useful life

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Depreciation

- **HUD permits only <u>straight-line</u> depreciation to be considered in calculating expenses for net business income**
- **If <u>accelerated</u> depreciation has been used for tax purposes, family must supply an accountant's calculation of depreciation expense using straight-line depreciation**

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Distributions to Family Members

- **Annual income includes the net income from the business, as well as:**
  - Salaries paid to family members from the business
  - Other amounts distributed to family members from the business (e.g., commissions, bonuses, profits taken)

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Distributions to Family Members

- **Regarding salaries paid to family members:**
  - Counting both family members' salaries and family's business income is not "double-counting" income
  - All salaries (including salaries to family members) are deducted from gross income as an <u>expense</u> of the business, to arrive at net business income
  - Therefore, salaries distributed from the business have been deducted before <u>net</u> business income is computed

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Family Investment in Business

- **Family might invest in its own business:**
  - Provide cash loans to the business
  - Contribute assets or equipment to the business
- **When family withdraws cash or assets from the business, the cash/asset value must be counted as family income**
  - Exception: If the withdrawal is a reimbursement of cash or assets invested in the business, it is not counted as income

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Family Investment in Business

- **Family Investment – Example:**
  - Xena takes $2,000 from her personal savings account to get her house cleaning business started
  - Once business is profitable, Xena will take a salary
  - Before she takes a salary, she will withdraw $2,000 from the business to return to her savings account
    - Withdrawal of $2,000 is counted as a reimbursement of cash invested in the business and would not be counted in annual income for Xena
    - The $2,000 would also be counted as a business expense

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Family Investment in Business

- **A family member may contribute their own labor to the business, without compensation for the labor**
- **Business "investment" does not include the value of labor donated to the business**
  - "Withdrawal" from the business would be considered salary or compensation payment for labor, and would be counted as annual income to the individual

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Family Investment in Business

- **Family Contribution – Example:**
  - Bill owns Bill's Barbeque
  - Bill's wife works at the restaurant (for no pay) 2 hours each morning to help get things started
  - Bill gives his wife $1,000 at the end of the year
  - Her contribution to the business was unpaid labor and cannot be considered an <u>investment</u>
  - $1,000 is not a reimbursement of "assets invested", and must be considered family income

Business Assets

- **Assets that are part of an active <u>business</u>, including equipment and inventory, are excluded from net <u>family</u> assets**
- **Assets from a business no longer active would revert to the family and may be included in the family's net assets**
  - Items must otherwise qualify as assets
  - Any income from those assets is counted as family income

Business Assets

- **Value of rental or other real property is counted as part of the <u>family's</u> net assets**
- **However, if the sale or rental of real estate is the individual's main occupation the value of the property is a <u>business</u> asset, not a family asset**

Business Assets

- **Real Property Asset – Example:**
  - Hilda owns a house that she lived in for 40 years
  - She has now moved into a Section 8 development
  - Hilda rents out the house, but does not consider herself to be in the "real estate" or "rental" business
  - The house is not considered an active business asset but a family asset
    - Hilda's equity in the house is included in net family assets
    - Amount of income from house rental is included in calculation of income from assets

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Verification and Documentation

- **Net income from a business verified using documents provided by the family**
  - Tax returns
  - Audited or unedited financial statements
  - Loan applications listing income from the business during the preceding 12 months
  - Notarized statement or affidavit as to net income realized from business during previous years
  - Copies of contracts for major purchases and leases for leasing costs

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Verification and Documentation

- **Family's tax return may be simplest way to verify a family's business expenses**
- **HUD recommends use of:**
  - IRS Form 1040, Schedule C (for Small Business)
  - IRS Form 1040, Schedule E (for Rental Property Income)
  - IRS Form 1040, Schedule F (for Farm Income)
- **IRS Publication 535 may be helpful for understanding small businesses**

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Verification and Documentation

- **Third-party verification (written or oral) may be appropriate**

  Example:
  - Financial statement may list expense (e.g., interest payment) for which family cannot provide additional documentation
  - Owner may need to contact third-party directly to confirm expense

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Projecting Business Income

- **Business income should be anticipated income, based on income projected to be received over the coming year**
- **Anticipating business income would start with current circumstances**

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Projecting Business Income

- **Owner should work with family to develop realistic projection based on anticipated income and expenses for coming year**
  - Business may be growing rapidly – could indicate higher projected net income for coming year
  - Business may have significant expenses for coming year – could indicate a reduced projected net income for coming year

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Projecting Business Income

- **If family verifies changes to take place during the coming year, owner may adjust the anticipated business income accordingly**
- **If changes are likely but circumstances after the change are not known, owner should anticipate business income based upon current circumstances**

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Projecting Business Income

- **People with small businesses don't always keep complete, accurate financial records**
  - Owners should work with families to obtain best documentation possible
  - Owners should inform families about records needed to facilitate calculation of anticipated net business income in future years

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Case Study 1

The Curly Q Salon

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Case Study 1: Answer 1a

	Financial Statement	Schedule C
Gross Business Income:	$47,310	$46,250
Gross Business Expenses:	$46,195	$44,159
Net Business Income:	$1,115	$2,091

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Case Study 1: Answer 1b

- For gross income, Schedule C subtracts $1,060 for "Costs of Goods Sold" (from Part III of the form)

$ 47,310 (Financial Statement)
– $ 1,060 (Costs of Goods and Services)
= $ 46,250 (Schedule C)

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Case Study 1: Answer 1b

- "Costs of Goods Sold" represents the value of business inventory (supplies, products, goods, etc.) sold to customers during the year
- Schedule C increases inventory by the value of goods added during the year
- The difference between inventory at the beginning of the year and inventory at the end of the year is the amount by which inventory has increased or decreased

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Case Study 1: Answer 1b

- In Case Study 1, the net result is that inventory decreased by $1,060 for the year
- Schedule C uses this amount to reduce the gross profit of the business (on line 5) which then reduces the gross income of the business (on line 7)

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Case Study 1: Answer 2a

Amount	Financial Statement Description	Schedule C Part II Line No.	Schedule C Description
$12,000	Rent for Salon Space	18	Office Expenses
$1,200	Utilities	25	Utilities
$19,000	Salaries	26	Wages
$1,000	Advertising	8	Advertising
$125 $2,160	Business License Taxes & Preparation	23	Taxes & Licenses

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Case Study 1: Answer 2b

Amount	Schedule C Part II Line No.	Schedule C Description	Financial Statement Description
$5,854	14	Employee Benefit Programs	FICA & Medicare ($1,454) Health Insurance ($4,000) Misc. – bonus ($400)
$600	17	Legal & Professional Services	Misc. – accountant ($600)
$25	24b	Meals & Entertainment	Misc. – food ($25)
$75	27	Other Expenses (page 2, line 48)	Misc. – charity ($50) Misc. – postage ($25)

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Case Study 1: Answer 2b

- "Miscellaneous" expenses is a large, ill-defined category
- For small business owners, distinction between personal money and business money can get blurred
- Such expenses must be examined closely to ensure that expenses are business-related

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Case Study 1: Answer 2c

- Schedule C reflects $600 worth of equipment and supplies purchased by Jackie for use in the business on line 22 of Part II
- Schedule C reflects $750 worth of supplies and products purchased to sell to customers on line 36 of Part III
  - These $750 of expenses are shown as items purchased and added to inventory during the year

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Case Study 1: Answer 2c

- A key difference between Financial Statement and Schedule C:
  - Financial Statement categorizes amounts as expenses for the year, like all other expenses
  - Schedule C categorizes amounts as *additions to inventory*, not as "expenses"

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Case Study 1: Answer 2c

- **The logic of the Schedule C approach:**
  - Jackie sells goods from her inventory and generates sales receipts which are included on Schedule C, line 1, "Gross receipts or sales"
  - "Inventory at end of year" in Part III, line 41, is reduced by the amount that Jackie spent on the goods she sold
  - This adds to the "Costs of goods sold" on line 41, and transferred to line 4, which reduces the "Gross profit" on line 5
  - Hopefully, Jackie sells the goods (line 1 receipts) for more than she spent on them (line 4 costs), which would add to her gross profits for the year

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Case Study 1: Answer 3a

- **Under "Expenses", Financial Statement includes a loan expense amount of $1,606**
  - Computed by multiplying the monthly loan payment ($133.81) by 12 months

$133.81 x 12 = $1,605.72 = **$1,606**

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Case Study 1: Answer 3b

- **Part II, Line 16 of Schedule C includes "Other" interest payments for the year of $320**
  - This is only the interest that Jackie paid on her loan for 2004

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Case Study 1: Answer 3c

- **A key difference between Financial Statement and Schedule C:**
  - Schedule C does not include the principal payments on the business loan as an eligible business expense for 2004
  - Financial Statement includes the full amount of loan payments for the year, both principal and interest, as an expense for 2004
  - This leads to a *higher* business loan expense figure on the Financial Statement than on Schedule C

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Case Study 1: Answer 3d

- **Interest payments are deductible as a business expense**
- **Loan payments for the principal portion are never deductible as a business expense**
- **Differentiate between interest portion and principal portion of loan payments for recertification year beginning August 1st**

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Case Study 1: Answer 3e

- **Total principal to be paid in recertification year beginning August 1, 2005:**

  $1,022.22

  - Jackie will make 8 monthly loan payments in 2005 recertification year
  - This will be sufficient to retire the entire amount of the remaining principal – $1,022.22
  - Jackie will "pay off" the loan before the 12 month recertification period expires

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Case Study 1: Answer 3e

- **Total <u>interest</u> to be paid in recertification year beginning August 1, 2005:**
  - Based on amortization schedule, total the interest portion of each loan payment for payments no. 29 (August) through no. 36 (March)

$10.65 + $9.37 + $8.07 + $6.76 +

$5.44 + $4.10 + $2.75 + $1.38 =

$48.52

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Case Study 1: Answer 4a

- **Jackie's gross business income through April 2005 is $14,832**
- **Her gross business expenses for the same period are $15,901**
- **So, through April 2005, based on the Financial Statement Comparison, Jackie's business has a net income <u>loss</u> of $1,069**

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Case Study 1: Answer 4b

- **Jackie has paid $1,200 for Liability Insurance so far in 2005 – 100% of the amount that she paid for Liability Insurance 2004**
- **Jackie's has paid $2,000 for Health Insurance so far in 2005 – 50% of the amount that she paid for Health Insurance in 2004**
- **Because 2005 is only 33% complete, Jackie may be <u>ahead</u> in paying these expenses for 2005**
- **Jackie's budget may be "tight" now because of the timing of her expenses**
- **Confirm with Jackie**

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Case Study 1: Answer 4c

- **Jackie's income so far in 2005 is a little less than 33% of her income in 2004**
- **Jackie has paid a little less than 33% in various expense categories so far in 2005, as compared to 2004 (e.g., FICA and Medicare, equipment, supplies, advertising, business license, taxes and miscellaneous)**
  - Some expenses are not significantly less than 33% of 2004 figures, and so may not have a significant impact by the end of 2005
  - Some expenses may not be incurred at same level in 2005 as 2004

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Case Study 1: Answer 5a

- **$48.52 ($49 rounded)**
  - Only interest payments on the loan are deductible as a business expense
  - Jackie will "pay off" her loan in the recertification year beginning August 1st
  - Jackie will pay $48.52 ($49 rounded) in interest on her loan for the recertification year beginning August 1st

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Case Study 1: Answer 5b

- **$250 clearly categorized as an "expense" to the business**
  - Represents the amount that Jackie expects to spend on supplies that she will use in the business

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Case Study 1: Answer 5b

- $200 could be **either** an "expense" to the business **or** "costs of goods sold" and a reduction to gross income
  - If Jackie "sells about the same amount that she buys" for 2005, then the "costs of goods sold" on Schedule C would be $200 and she will reduce her gross income by $200
  - So, whether an "expense" or "costs of goods sold", the net effect is the same – net income reduced by $200

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Case Study 1: Answer 6a

Income	Jan. – April 2005	Calculation	12-month Projection
Income from Services	$14,000	$14,000 x 3	$42,000
Income from Product Sales	$800	$800 x 3	$2,400
Interest on Checking	$32	$32 x 3	$96
Costs of Goods Sold	NA	$450 - $250	($200)
Gross Income:	**$14,832**	---------------------	$44,296

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Case Study 1: Answer 6a

Expense	Jan. – April 2005	Calculation	12-month Projection
Rent for salon space	$4,000	$4,000 x 3	$12,000
Utilities	$400	$400 x 3	$1,200
Salaries	$6,333	Same as 2004	$19,000
FICA and Medicare	$485	Same as 2004	$1,454
Liability Insurance	$1,200	1 annual payment	$1,200
Health Insurance	$2,000	Same as 2004	$4,000
Equipment	$0	None	$0
Supplies	$150	($150 x 3) - $200	$250
Advertising	$100	$100 x 3	$300

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Case Study 1: Answer 6a

Expenses continued:

Expense	Jan. – April 2005	Calculation	12-month Projection
Business license	$0	1 annual payment	$125
Taxes	$648	Same as 2004	$2,160
Loan payment	$535	Interest only	$49
Miscellaneous	$50	$50 x 3	$150
Total Expenses:	**$15,901**	-------------------------	**$41,888**

Net Income:	**($1,069)**	-------------------	**$2,408**

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Case Study 1: Answer 6b

- **Jackie's income is projected to be slightly less than 2004, but her countable expenses are even lower**
- **Jackie sees her loan payment as an expense, but you can only count the interest on the loan payments as an expense**
- **Loan will be fully paid off a few months into the recertification year beginning 8/1/05, so you cannot count payments for the entire year**
- **Net result is a significant difference between amount you may count as a loan payment expense in 2005 ($49) and the amount that Jackie counted in 2004 ($1,606)**

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Case Study 1: Answer 7

Family Member	Calculation	Employment or Business	Other
Jackie	$12,000/year salary	$ 12,000	
Jackie	Net business income	$ 2,408	
	Total Each Source:	$ 14,408	
	Total All Sources:	$ 14,408	
	Total Annual Income:	$14,408 + $86 =	$14,494

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Part II

Real Estate

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Overview

- **Uncommon for families living in subsidized housing to own real estate**
- **Circumstances where it is possible:**
  - Person owns a prior residence (such as a house) but has not yet sold it
  - Family member inherits all or a portion of a real property (e.g., house, from a deceased relative)
  - Family member owns property as an occupation as part of an active business (e.g., a contractor who buys houses, rehabilitates them, and sells them)

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Overview

- **Is real estate owned as a family asset or by a family member whose main occupation is real estate?**
  - Real estate as an asset discussed here
  - Where family member's main occupation is buying, selling, or renting real estate, family member has a real estate business
    - Previous section addressed net income from a business
    - For a business, real property not counted as family asset

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Overview

- **If family member's primary occupation is <u>not</u> real estate, HUD regulations require owners to:**
  - Count equity in real property owned by a family member as a family <u>asset</u>
  - Count net income from the real property asset in the annual income calculation

100

Overview

- **Two types of real estate are <u>never</u> counted as family assets:**
  - Equity in a cooperative unit in which a family lives
  - Interests in Indian trust lands

101

Equity in Real Property

- **The equity in real property is its <u>cash value</u>**
- **To determine cash value of real estate, use following calculation:**

Current **Market Value** of the Property
– Unpaid balance of **Loans** secured by property
– **Other Costs** that would be incurred in converting asset to cash (e.g., broker and legal fees, settlement costs, penalties)
= **Cash Value** of Property (equity)

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Equity in Real Property

- **Market Value:**
  - May be determined from appraisals and real estate tax statements (if tax authority uses approximate market value)
- **Loans:**
  - May include mortgages on the property and liens on the property (e.g., tax or construction liens)
  - Unpaid "balance" means unpaid current <u>principle</u> on loan

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Equity in Real Property

- **Other Costs:**
  - May be verified through a letter or document obtained from a third party, such as an attorney, stockbroker, banker, or real estate agent
  - Verbal "quote" from a qualified individual provided by the family may also be accepted

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Equity in Real Property

- **Cash value of the property must be determined regardless of whether the property generates income**
- **If the property is <u>co-owned</u>, the owner should prorate cash value according to the percentage owned by a family member**

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Actual Income from Real Estate

- **Any net income from the property must be counted as asset income**
  - Most common type of income from property is rental income
  - A family member may own a house, land or other real estate that the family member rents out
  - Income from the property does not refer to real estate income as a primary occupation

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Actual Income from Real Estate

- **Formula for calculating net income from a real estate asset similar to formula for calculating net business income:**

  Gross (rental) Income
  – Expenses
  – Interest on qualified loans
  = Net Income

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Actual Income from Real Estate

- **If net income from property is negative (i.e., a net loss), it cannot be used to offset other income**
  - Income from the asset would be recorded as zero
- **Because the real estate is a family asset (not a business asset), depreciation of the asset is not allowed**

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Actual Income from Real Estate

- **If real estate income is sporadic (e.g., frequent turn-over in tenants, frequent non-payment of rent) the owner should work with family to develop a realistic estimate of anticipated income**

109

Actual Income from Real Estate

- **Income from Real Estate – Example:**
  - Ingrid inherited rental property in another state
  - She has a stable tenant who pays $750/month ($9,000 per year) in rent
  - She has a mortgage payment of $342/month ($4,104 per year: $2,232 interest, $1,872 principle)

$9,000 (Gross Income)
– $3,900 (Taxes, insurance, maintenance and utilities)
– <u>$2,232 (Interest on the mortgage)</u>
= $2,868 Net income

110

Actual Income from Real Estate

- **Income from Real Estate – Example (cont):**
  - Ingrid's actual "in-pocket" income will be less
  - From her net income, she must pay the principal portion of her mortgage ($1,872)
  - We cannot deduct principal payments
  - However, each principal payment will increase her equity in the property

111

Case Study 2

The Barkers

Case Study 2: Answer 1

- **In order to establish the cash value of the house, you need to know:**
  - The current market value of the house
  - The unpaid balance of loans secured by the property
  - The costs of converting the property to cash

Case Study 2: Answer 2

- **Tax assessment notice states that assessed value of house is $45,000 which represents about 40% of the market value**

$45,000 ÷ .40 = **$112,500 market value**

Case Study 2: Answer 2

- **Other Things to Consider:**
  - Has house been reappraised since improvements (more current and more accurate information on market value of home)?
  - Owner is not required to pay for an appraisal on the property
  - Tax assessment notice may be most reliable information
  - Market value of $112,500 may be reasonable, given original appraisal of $90,000 two years ago, and improvements made by the brothers

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Case Study 2: Answer 3

- **$28,050 (rounded)**
  - **Of total $30,000 borrowed, the unpaid principal balance remaining as of beginning of recertification period was $28,049.78 (or, $28,050 rounded)**
  - **This was the balance remaining at the end of April 2005, after the April payment was made**

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Case Study 2: Answer 4a

- **$79,450**

$112,500 market value
– $ 28,050 unpaid principal balance
– $ 5,000 fees and commissions
= $ 79,450 cash value

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Case Study 2: Answer 4b

- **$19,863 (rounded)**

$ 79,450	cash value
÷ 4	no. of co-owners
= $ 19,862.50	Robert's share

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Case Study 2: Answer 4b

- **Robert is a co-owner of the property**
- **We are assuming that all brothers share equally in the value of the home**
- **Is there some arrangement whereby the brothers do not share equally in the value of the home?**
- **Otherwise, Robert's *share* of the cash value of the asset is the ¼ of the *total* cash value of the asset**

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Case Study 2: Answer 5

- **$14,400**
  - Why are the brothers unable to keep the house rented for the entire year?
  - Two-year history with renting the house may or may not be indicative of a pattern that will repeat in the future
  - Original condition of the home may have made it more difficult to attract a reliable tenant

120

Case Study 2: Answer 5

- Brothers have current tenant with 12-month lease
- Even if current tenant vacates, brothers could re-rent house without loss in rental income
- Because brothers have the house under lease, projecting a full 12 months of rental income is reasonable
- Late payments in the past year were based on *unanticipated* events – would not generally be counted in gross anticipated income for coming year

Case Study 2: Answer 6a

- **Reimbursement for labor incurred in managing, maintaining, improving property can be a legitimate expense for maintaining the asset**

Case Study 2: Answer 6a

- **Amount of reimbursement for labor must also be counted as income to Robert**
  - Robert could not claim that withdrawal of cash was a reimbursement of “labor” invested in the house (so not counted as income)
  - Additional amount of annual income ($206.50/*year*) was below the threshold ($200/*month*) by which family should have reported an increase for purposes of an interim recertification

Case Study 2: Answer 6a

- **Is Robert planning similar improvement expenses (with similar labor charges) in the coming year?**
  - If "yes", then *anticipated* expense could be counted and appropriate amount of labor reimbursement would be counted as *anticipated* income to Robert

124

Case Study 2: Answer 6b

- **Reimbursement to Russell for time and expense involved in managing the property can be a legitimate expense for maintaining the asset**
  - Are these expenses expected to change over the coming year?
  - Can Robert secure any documentation of these expenses from Russell?

125

Case Study 2: Answer 6c

- **Are repairs attributable to this family?**
- **Would repairs have been made as result of routine maintenance and normal wear-and-tear, regardless of this family?**
- **Repair of excessive damages over and above amount covered by damage deposit should be the exception, not the rule**
  - Expenses are *unanticipated* expenses and would not be included in a projection of *anticipated* expenses for the coming year

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Case Study 2: Answer 6d

Expense Item	Counted	Not Counted
Water/Sewer/Trash	$200	
Gas	$900	
Electricity	$400	
Regular Maintenance and Supplies	$300	
Damage Repair		$900
Improvements		$1,400
Taxes	$1,575	
Management Fee	$648	

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Case Study 2: Answer 6d

Expenses continued:

Expense Item	Counted	Not Counted
Travel	$450	
Telephone	$240	
Loan Payments	$2,850	
Other:		
Other:		
Total:	$7,563	$2,300

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Case Study 2: Answer 6d

- **Water/Sewer/Trash:**
  - Notice of Change shows that charges for single family units will increase to $50/quarter beginning May 1st

    $50/quarter x 4 quarters = $200
- **Gas and Electricity:**
  - Based on documentation provided by Robert, and no anticipated changes, anticipated expenses computed the same as 2004

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Case Study 2: Answer 6d

- **Regular Maintenance and Supplies; Management Fee; Travel; Telephone:**
  - Russell could reimburse himself for effort, time and expense involved in managing the property
  - You should see some documentation of these expenses (directly from Russell, preferably)
  - Certification from Robert is not highest level of documentation for these expenses, but may be the best documentation that you're able to secure

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Case Study 2: Answer 6d

- **Damage Repair:**
  - Expenses are unanticipated expenses, over and above normal wear-and-tear and damage deposit; <u>not</u> included in a projection of anticipated expenses for coming year
- **Improvements:**
  - Based on documentation provided by Robert, and no additional improvements planned, anticipated expenses computed the same as 2004

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Case Study 2: Answer 6d

- **Taxes:**
  - Notice of Tax Assessment shows taxes due twice a year: $788 + $787 = $1,575
- **Loan Payment:**
  - <u>Principal</u> portion of payment cannot be counted as an expense
  - Use amortization table; total all of the <u>interest</u> portion of the payments for months of May 2005 (payment 14) through April 2006 (payment 25)
- **Additional Expenses:**
  - None

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Case Study 2: Answer 7

a. Net Asset Income: $6,837

– $14,400 - $7,563 = $6,837

b. Net Asset Income for Robert: $1,709

– $6,837 ÷ 4 = $1,709.25 ($1,709 rounded)

133

Case Study 2: Answer 8

Family Member	Asset Type	Calculation for Cash Value	Cash Value	Calculation for Asset Income	Actual Income
Robert, Vane	Checking	200 - 0	$ 200	200 x .00	$ 0
Robert, Vane	Savings	600 - 0	$ 600	600 x .0167	$ 10
Sally J.	Savings	100 - 0	$ 100	100 x .00	$ 0
Oprah	Savings	100 - 0	$ 100	100 x .00	$ 0
Robert	Rental	(112,500 – 28,050 – 5,000) ÷ 4	$ 19,863	(14,400 – 7,563) ÷ 4	$ 1,709
		Total:	$ 20,863		$ 1,719
				Imputed Income from Assets:	417
				Total Asset Income:	$ 1,719

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Case Study 2: Answer 8

- **Note that Robert's share of the house is recorded as the *cash value* of the asset to Robert**
- **Robert's share of the net income from the asset is recorded as *actual asset income* for Robert**

135

Case Study 2: Answer 8

Family Member	Calculation	Employment	Soc. Security, Other
Robert	$7.50 x 32 hours x 48 weeks	$ 11,520	
	Total Each Source:	$ 11,520	
	Total All Sources:	$ 11,520	
	Total Annual Income:	$11,520 + $1,719 = $13,239	

136

Case Study 2: Answer 8

- **Robert records his total income as about "$11,000 or so" on the recertification form**
- **You must base income on *verified* data (hours, rate of pay, etc.) from employer**

  $7.50/hour x 32 hours/week x 48 weeks = **$11,520**

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Case Study 2: Answer 8

3% of A.I. = $397 **Total Annual Income:**	$ 13,239
Dependent Deduction: __2__ **x $480**	$ 960
Child Care Expenses Deduction:	$ 0
Child care expenses for work:__________	
Child care expenses for education:__________	
Elderly Household Deduction:	$ 400
Medical Expenses: $3,960 **Deduction:**	$ 3,563
Total Deductions:	$ 4,923
Total Adjusted Income:	$ 8,316

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Case Study 2: Answer 8

- **Family qualifies as a "Disabled" family - Vane, is a person with disabilities**
- **Family reports medical expenses of:**
  - $100/month for a hospital bill
  - $150/ month for prescriptions
  - $80/month for regular doctor's visits by Vane

($100 x 12) + ($150 x 12) + ($80 x 12) =
$3,960 unreimbursed medical expenses

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Case Study 2: Answer 8

Monthly (gross) Income	$ 1,103
Monthly Adjusted Income	$ 693
30% of Monthly Adjusted Income	$ 208
10% of Monthly (gross) Income	$ 110
Welfare Rent	NA
Minimum Rent	$ 25
Total Tenant Payment	$ 208

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Case Study 2: Answer 8

Total Tenant Payment	$ 208
Minus Utility Allowance	$ 95
Tenant Rent	$ 113
Utility Reimbursement	$ 0

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Case Study 2: Answer 8

Contract Rent	$ 1,100
Utility Allowance	$ 95
Gross Rent	$ 1,195
TTP	$ 208
Total Assistance Payment	$ 987
Assistance Payment for Rent	$ 987
Assistance Payment for Utility Reimbursement	$ 0

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Part III

Trust as Assets

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What is a Trust?

- **A trust is a legal arrangement in which:**
  - **one party ("creator" or "grantor")**
    - transfers property (e.g., money, real estate, investments, personal property) to
  - **a second party (the "trustee")**
    - to hold the property for the benefit of
  - **a third party (the "beneficiary")**

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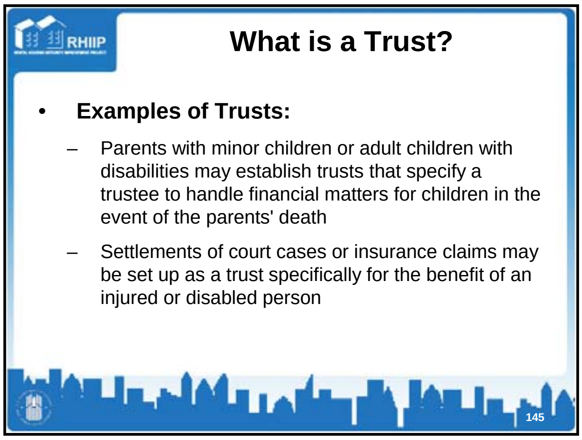
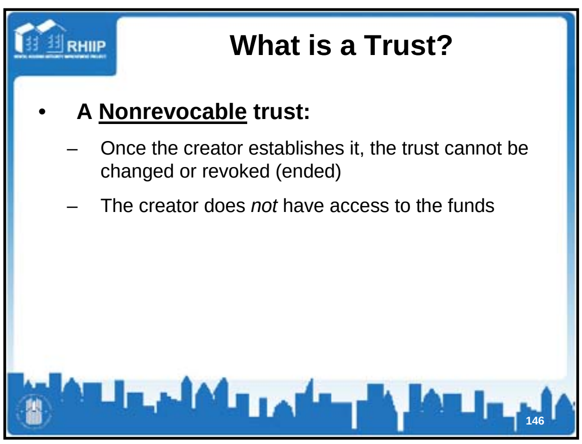
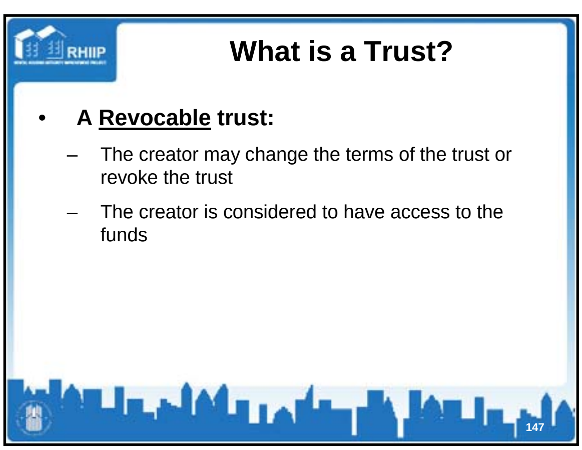

RHIIP
What is a Trust?
• Examples of Trusts:
– Parents with minor children or adult children with disabilities may establish trusts that specify a trustee to handle financial matters for children in the event of the parents' death
– Settlements of court cases or insurance claims may be set up as a trust specifically for the benefit of an injured or disabled person
145


RHIIP
What is a Trust?
• A Nonrevocable trust:
– Once the creator establishes it, the trust cannot be changed or revoked (ended)
– The creator does *not* have access to the funds
146


RHIIP
What is a Trust?
• A Revocable trust:
– The creator may change the terms of the trust or revoke the trust
– The creator is considered to have access to the funds
147

What is a Trust?

- **An assisted family member may be related to a trust in one of three ways:**
  - A family member may be the trustee
  - A family member may be the creator or grantor of the trust
  - A family member may be the beneficiary of the trust

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Family Member as Trustee

- **If family member is a trustee, family member holds or administers the trust for another person**
  - The trust does not "belong" to the trustee
  - The value of the trust is not considered as a family asset
  - Doesn't matter whether trust is revocable or nonrevocable

149

Family Member as Trustee

- **The trustee may receive compensation for administering the trust**
  - Compensation would be counted as income to the trustee

150

Family Member as Creator

- **If family member is the creator (grantor) of the trust, the family member has allocated some of his/her resources to another person through a trust**
- **Trust creator and trust beneficiary may be members of same assisted family**

151

Family Member as Creator

- **If creator is a member of the assisted family, the owner must ask, "Is the trust revocable?"**
  - If "Yes", asset is considered an asset of the family member; cash value would be counted in net family assets
  - If "No", family member no longer has access to the trust and asset is no longer considered an asset of the family member

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Family Member as Creator

- **Asset placed in a nonrevocable trust by a family member would be considered *asset disposed of for less than fair market value***
  - Family member can no longer get at the asset
- **Asset placed in a revocable trust by a family member is still accessible to family**
  - Not considered disposed of for less than fair market value

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Family Member as Creator

- **Owner must also ask, "Does family member receive any <u>income</u> from the trust?"**
  – If "Yes", income would be included in annual income

Example:

- Grandparent establishes a nonrevocable trust for the care of a grandchild upon grandparent's death
- While grandparent is alive, interest on the trust account (income) is received by the grandparent
- Interest received by grandparent would be counted as income, but value of trust is not an asset

Family Member as Beneficiary

- **Family member may be <u>beneficiary</u> of a trust created by another individual**
- **Trust <u>beneficiary</u> and trust <u>creator</u> may be members of the same assisted family**

Family Member as Beneficiary

- **If a member of the assisted family is the beneficiary of the trust, owner must ask, "Does family member have access to any of the <u>principal balance</u> of the asset?"**
  – If "Yes", cash value of principal is added to total net family assets (like any other asset)
  – If beneficiary receives lump sum payment at specified time (e.g., reaching age of 21, at the death of the grantor, upon completion of college), considered lump sum addition to assets

Family Member as Beneficiary

- **Owner must also ask, "Does family member have access to any income from the asset?"**
  - Some trusts provide that the beneficiary receive periodic payments from the trust
  - If "Yes", periodic payments considered regular contributions and would be counted as income

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Special Needs Trusts

- **Created under some state laws**
  - Usually created by family for disabled persons unable to make their own financial decisions
- **Principal balance in trust generally is not accessible to the beneficiary**
  - Would not be counted as part of net family assets for beneficiary
- **Regular income paid from trust to the beneficiary is counted as annual income**

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Part IV

Assets Disposed of for Less than Fair Market Value

159

Assets Disposed Of

- **Review of material introduced in Module 4**
- **Assets disposed of for <u>less than fair market value</u> in the two years prior to effective date of certification or recertification are counted as a current asset of the family**

160

Assets Disposed Of

- **Exceptions:**
  - Assets disposed of as part of separation or divorce settlement are not considered as current assets
  - Assets disposed of as result of foreclosure or bankruptcy sale are not considered as current assets
  - Fair market value of all assets disposed of in the preceding two years exceeds the gross amount received by $1,000 or less

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Assets Disposed Of

- **Example:**
  - During past 2 years, Nusbaum family made 3 different charitable donations: $300, $150 and $200
  - Total disposed of for less than Fair Market Value:

    $300 + $150 + $200 = **$650**
  - $1000 > $650, so no asset counted

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Assets Disposed Of

- **Example:**
  - Mrs. Johnson withdraws $10,000 from her savings account and gives it to her son to help him make a down payment on a house for his family
  - Since the amount disposed of is more than $1,000 the owner continues to count the $10,000 as an asset for Mrs. Johnson

163

Assets Disposed Of

- **Assets placed in nonrevocable trusts are considered as "assets disposed of for less than fair market value"**
  - Unless assets placed in trust were received through settlements or judgments

164

Assets Disposed Of

- **Verification:**
  - Applicants/participants must declare (i.e., self-certify) at each income certification and recertification whether or not any assets have been disposed of for less than fair market value
  - Owner should develop form for this purpose
  - Owner should make additional verification efforts only if the self-certification is inconsistent with other information provided by family

165

Assets Disposed Of

- **Determining the Asset Cash Value:**
  - Amount counted as an asset equals

    Cash value of the asset

    minus

    Amount received in compensation for asset

166

Assets Disposed Of

- **Example:**
  - Mrs. Franklin cashed in a $10,000 CD, paying an interest penalty of $386
  - She made repairs to her car of $1,800 and spent about $200 on groceries
  - She gave the remainder to her sister (who does not live with her) to prevent foreclosure on her sister's house

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Assets Disposed Of

- **Example** **(cont):**
  - Cash value of the asset disposed of for less than fair market value would be calculated as follows:

$ 10,000	CD Market Value
$ - 386	Fees/penalties
$ - 2,000	Spent on car and groceries
$ 7,614	Disposed of for less than Fair Market Value (gave to sister)

168

Assets Disposed Of

- **Expiration of the 2-year period:**
  - When 2-year period expires the disposed asset are not longer counted
  - The family may request an interim recertification to remove the disposed asset if the two year period expires between annual recertifications

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Case Study 3A

A Generous Grandmother

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Case Study 3A: Answer 1

- **Checking account balance:** **$8,500**
- **Assets disposed of :** **$56,000**

Appraised Value of House:	$80,000
Estimated Sales Charge:	- $ 4,000
Cash Value of House:	= $76,000
Cash Value of House:	$76,000
Amount Received for Sale of House:	- $50,000
Amount Disposed of for Less than FMV:	= $26,000
Amount Disposed of for Less than FMV:	$26,000
Nonrevocable Trust:	+ $30,000
Assets Disposed of for Less than FMV:	= $56,000

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Case Study 3A: Answer 2

Family Member	Asset Type	Calculation for Cash Value	Cash Value	Calculation for Asset Income	Actual Income
Betty	Checking	500 - 0	$ 500	500 x .00	$ 0
Wilma	Savings	8,500 - 0	$ 8,500	8,500 x .0175	$ 149
Wilma	House	80,000 – 4,000 – 50,000	$ 26,000	NA	$ 0
Wilma	Trust	30,000 - 0	$ 30,000	200 x 12	$ 2,400
		Total:	$ 65,000		$ 2,549
				Imputed Income from Assets:	$ 1,300
				Total Asset Income:	$ 2,549

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Case Study 3A: Answer 2

- **Note that Wilma's house continues to be counted as an asset for Wilma**
  - The cash value of the asset is the amount disposed of for less than fair market value
- **Note that the nonrevocable trust continues to be counted as an asset for Wilma**
  - $30,000 is no longer accessible to Wilma
  - The monthly payment Wilma receives ($200) is counted as asset income

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Case Study 3A: Answer 2

Family Member	Calculation	Employment	Soc. Security, Pension
Betty	$8.50 x 40 hours x 52 weeks	$ 17,680	
Wilma	$900 x 12		$ 10,800
Wilma	$350 x 12		$ 4,200
	Total Each Source:	$ 17,680	$ 15,000
	Total All Sources:	$ 32,680	
	Total Annual Income:	$32,680 + $2,549 = $35,229	

174

Case Study 3A: Answer 2

- **Betty records her total income as about "$15,000 or so" on the recertification form**
- **You must base income on *verified* data (hours, rate of pay, etc.) from employer**

$8.50/hour x 40 hours/week x 52 weeks = **$11,520**

175

Case Study 3A: Answer 2

3% of A.I. = $1,057 Total Annual Income:	**$ 35,229**
Dependent Deduction: __1__ x $480	**$ 480**
Child Care Expenses Deduction:	**$ 0**
Child care expenses for work:__________ Child care expenses for education:__________	
Elderly Household Deduction:	**$ 0**
Medical Expenses: NA Deduction:	**$ 0**
Total Deductions:	**$ 480**
Total Adjusted Income:	**$ 34,749**

176

Case Study 3A: Answer 2

- **On recertification form, family indicates that head or spouse is a person 62 years of age or older**
- **Family records $100/month in medical expenses**
- **However, Wilma (age 75) is not head or spouse but an "other adult"**
- **Family does not qualify for elderly family deduction or a deduction for medical expenses**

177

Case Study 3A: Answer 2

Monthly (gross) Income	$ 2,936
Monthly Adjusted Income	$ 2,896
30% of Monthly Adjusted Income	$ 869
10% of Monthly (gross) Income	$ 294
Welfare Rent	NA
Minimum Rent	$ 25
Total Tenant Payment	$ 869

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Case Study 3A: Answer 2

Total Tenant Payment	$ 869
Minus Utility Allowance	$ 82
Tenant Rent	$ 787
Utility Reimbursement	$ 0

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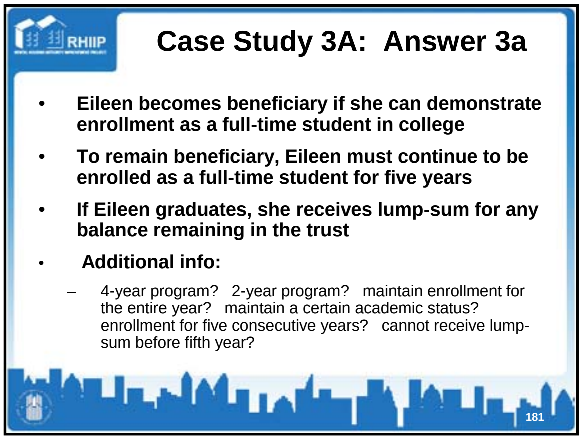
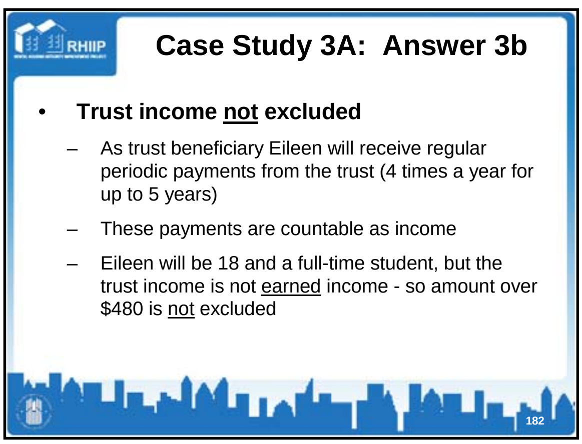
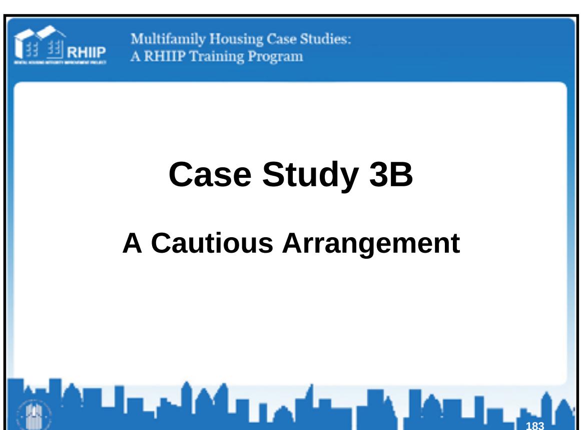
Case Study 3A: Answer 2

Contract Rent	$ 1,000
Utility Allowance	$ 82
Gross Rent	$ 1,082
TTP	$ 869
Total Assistance Payment	$ 213
Assistance Payment for Rent	$ 213
Assistance Payment for Utility Reimbursement	$ 0

180


RHIIP
Case Study 3A: Answer 3a
• Eileen becomes beneficiary if she can demonstrate enrollment as a full-time student in college
• To remain beneficiary, Eileen must continue to be enrolled as a full-time student for five years
• If Eileen graduates, she receives lump-sum for any balance remaining in the trust
• Additional info:
– 4-year program? 2-year program? maintain enrollment for the entire year? maintain a certain academic status? enrollment for five consecutive years? cannot receive lump-sum before fifth year?
181


RHIIP
Case Study 3A: Answer 3b
• Trust income not excluded
– As trust beneficiary Eileen will receive regular periodic payments from the trust (4 times a year for up to 5 years)
– These payments are countable as income
– Eileen will be 18 and a full-time student, but the trust income is not earned income - so amount over $480 is not excluded
182


RHIIP
Multifamily Housing Case Studies:
A RHIIP Training Program
Case Study 3B
A Cautious Arrangement
183

Case Study 3B: Answer 1a

- **Need documentation of annual income and expenses from cleaning business**
  - Tax returns (including Schedule C)
  - Audited/unaudited financial statements
  - Records of payments received for services
  - Any other financial records (e.g., days and hours worked, payment received, rates of payment)
  - Records and receipts for any expenses she incurs (e.g., supplies, materials, products)
  - Notarized statement of net income realized

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Case Study 3B: Answer 1b

- **$13,400 net income**
- **Information provided by Margarita may be the best you can obtain**
  - At a minimum, compute results, record them, have Margarita sign document and have document notarized
  - Based on the information provided:
    140 hours/month x 12 months x $8.00/hour =
    $13,440 gross income
  - No business expenses, so $13,400 also net income

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Case Study 3B: Answer 1b

- **Discuss with Margarita the importance of maintaining clear and complete records**
  - This would benefit her, for tax purposes, but would also help you compute income and rent

186

Case Study 3B: Answer 2

- **Margarita:** **$ 0**
- **Leonard:** **$ 0**
- **Alicia:** **$ 0**
  - Principal in the trust would not be counted as an asset for Margarita or for either of the children – they do not have access to the principal amount

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Case Study 3B: Answer 3a

- **Margarita:** **$ 500/month**
- **Leonard:** **$ 0/month**
- **Alicia:** **$ 0/month**
  - Even though funds are designated for care of the children, they are received by Margarita and are available as income to the family

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Case Study 3B: Answer 3b

- **Margarita:** **$ 0/month**
- **Leonard:** **$ 250/month**
- **Alicia:** **$ 250/month**
  - Periodic payments from trust will continue to be counted as long as Leonard and Alicia are family members remaining in the household
  - Only the earned income above $480 is excluded for full-time students over age 18, so no income would be excluded for Alicia

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Case Study 3B: Answer 4a

- **$100,000**
  - The trust is a <u>revocable</u> trust
  - The entire amount remains available to Fred and Ethel and they are able to access it and withdraw it at any time

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Case Study 3B: Answer 4b

- **$0**
  - The trust is a <u>revocable</u> trust
  - Only assets placed in *nonrevocable* trusts are considered as “assets disposed of for less than fair market value”
  - The entire amount remains available to Fred and Ethel and they are able to access it and withdraw it at any time
  - The fact that they liquidated other assets to create the trust is irrelevant

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Case Study 3B: Answer 4c

- **$0/month**
  - Periodic payments from the trust go to Margarita Katz and her family
  - None of this payment is counted as income for Fred and Ethel
  - Because the trust is still counted as an asset for Fred and Ethel, any interest earned on the trust (even if reinvested) would be counted as asset income for Fred and Ethel

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Case Study 3B: Answer 5

Family Member	Asset Type	Calculation for Cash Value	Cash Value	Calculation for Asset Income	Actual Income
Margarita	Checking	5,500 - 0	$ 5,500	5,500 x .00	$ 0
		Total:	$ 5,500		$ 0
				Imputed Income from Assets:	$ 110
				Total Asset Income:	$ 110

Case Study 3B: Answer 5

Family Member	Calculation	Employment	Soc. Security, Other
Margarita	$8.00 x 140 hours x 12 months	$ 13,440	
Margarita	$300 x 12		$ 3,600
Margarita	$500 x 12		$ 6,000
	Total Each Source:	$ 13,440	$ 9,600
	Total All Sources:	$ 23,040	
	Total Annual Income:	$23,040 + $110 =	$23,150

Case Study 3B: Answer 5

3% of A.I. = $695 **Total Annual Income:**	$ 23,150
Dependent Deduction: __2__ **x $480**	$ 960
Child Care Expenses Deduction:	$ 0
Child care expenses for work:__________ Child care expenses for education:__________	
Elderly Household Deduction:	$ 0
Medical Expenses: NA **Deduction:**	$ 0
Total Deductions:	$ 960
Total Adjusted Income:	$ 22,190

Case Study 3B: Answer 5

Monthly (gross) Income	$ 1,929
Monthly Adjusted Income	$ 1,849
30% of Monthly Adjusted Income	$ 555
10% of Monthly (gross) Income	$ 193
Welfare Rent	NA
Minimum Rent	$ 25
Total Tenant Payment	$ 555

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Case Study 3B: Answer 5

Total Tenant Payment	$ 555
Minus Utility Allowance	$ 90
Tenant Rent	$ 465
Utility Reimbursement	$ 0

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Case Study 3B: Answer 5

Contract Rent	$ 1,100
Utility Allowance	$ 90
Gross Rent	$ 1,190
TTP	$ 555
Total Assistance Payment	$ 635
Assistance Payment for Rent	$ 635
Assistance Payment for Utility Reimbursement	$ 0

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Part V

Other Income and Asset Issues

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Mortgage / Deed of Trust

- **An family member sells piece of real estate**
- **The family member (seller) may loan money to the purchaser through a <u>mortgage</u> or <u>deed of trust</u>**
  - Also known as a "contract sale"
  - Often referred to as the seller "holding the paper" on the property

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Mortgage / Deed of Trust

- **Any mortgage or deed of trust held by a family member (seller) is considered an asset for that family member**
  - Could include situations where an assisted family member owned property in the past, sold the property and now holds the mortgage

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Mortgage / Deed of Trust

- **The family member (seller) usually receives an annual payment from purchaser**
  - Payment needs to be separated into principal and interest portions
  - The interest portion of the payment is counted as income
  - The principal portion of the payment is not counted as income

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Mortgage / Deed of Trust

- **Value of the asset is the unpaid principal balance of the mortgage or deed of trust**
  - Each year, unpaid principal balance will decline as more principal is paid off

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Earned Income Tax Credit (EITC)

- **Federal regulations explicitly prohibit counting EITC refund payments as annual income**

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Earned Income Tax Credit (EITC)

- **To qualify for EITC, individuals must meet several IRS criteria including:**
  - Adjusted income must be below certain thresholds
  - Must have a valid SSN
  - Must be a U.S. citizen or resident alien all year
  - Investment income must be below certain threshold
  - Must have earned income and earned income must also be below certain thresholds
  - Additional criteria dependent upon the number and ages of children

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Earned Income Tax Credit (EITC)

- **EITC payments typically received as a separate refund payment, after filing of taxes**
- **EITC may also be received as regular advance payments**
  - Reduction of regular withholdings from an individual's earned pay, in the amount of the EITC

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Earned Income Tax Credit (EITC)

- **"Advance" EITC payments more difficult to recognize**
  - May appear as additions to individual's gross income
  - Because annual income from earned income is computed based on gross income, owners may inadvertently count the advance EITC

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Case Study 4A

The Curly Q Salon – Under New Management

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Case Study 4A: Answer 1

- **Net business income would be prorated; only Jackie's share (60%) would be included in Jackie's annual income calculation**
  - Jackie should be able to provide you with documentation showing the 60/40 split that she has reported

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Case Study 4A: Answer 2

- **$1,445 (rounded)**
  - You projected $2,408 in business income for Jackie in Case Study 1

    2,408 x 60% = **$1,445 (rounded)**

210

Case Study 4A: Answer 3a

- **Yes**
  - Since business was showing a profit at the end of the year, Jackie and Connie are able to withdraw this money as a profit
  - Jackie's portion of the withdrawal must also be counted as annual income to Jackie
  - For small business owners, distinction between personal money and business money can get blurred

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Case Study 4A: Answer 3b

- **Advertising is legitimate business expense**
  - If party is "advertising" for the business, cost of party could be considered a business expense
  - Net business income from Curly Q would be reduced
  - Jackie's countable income would also be reduced
  - Separating business expenses and personal expenses can be challenging, particularly if expenses can be interpreted both ways

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Case Study 4A: Answer 4

- **No**
  - Business would have experienced a net loss
  - However, when net business is negative, it cannot be used to offset other income
  - Jackie's net income from the business is **$0**; not **negative $175**

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Case Study 4B

A Clean Business

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Case Study 4B: Answer 1a

Gross Business Income:	**$32,000**
Business Expenses:	
Terry's salary ($5.50 x 40 x 52):	$11,440
Other business expenses:	+ $10,000
Lance's profit-taking ($2,000 x 4):	+ $ 8,000
Total Expenses:	**= $29,440**
Net Business Income:	
	$32,000
	- $29,440
	= $ 2,560

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Case Study 4B: Answer 1b

Gross Business Income ($20,900 x 2):	**$41,800**
Business Expenses:	
Terry's salary ($5.50 x 40 x 52):	$11,440
Other business expenses:	+ $10,000
Lance's profit-taking ($2,000 x 4):	+ $ 8,000
Total Expenses:	**= $29,440**
Net Business Income:	
	$41,800
	- $29,440
	= $12,360

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Case Study 4B: Answer 2

Terry's Income ($5.50 x 40 x 52):	**$11,440**
Lance's Income:	
Lance's Profits:	$ 8,000
Initial Investment:	- $ 1,500
Net Lance Income:	**= $ 6,500**
Net Business Income:	**$12,360**
Annual Income:	
	$11,440
	+ $ 6,500
	+ $12,360
	= $30,300

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Case Study 4B: Answer 2

- **Most new businesses have slow start**
- **Gross business income nearly doubled in 2nd half of prior year**
- **Lance is optimistic; will start taking profits**
- **Income information from 2nd half of prior year more representative of future prospects for the business**
  - More reasonable to use 2nd half figures from prior year to project future income

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Case Study 4B: Answer 2

- **Withdrawal of cash/assets from a business is included in annual income, except where withdrawal is reimbursement of cash or assets invested by family**
  - Lance invested $1,500 in the business and expects to withdraw $8,000 in profits for the coming year
  - The first $1,500 of that withdrawal will be reimbursement of cash already invested
  - The remaining $6,500 will be net profit-taking income for Lance

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Case Study 4C

Earned Income Tax Credit (EITC)

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Case Study 4C: Answer 1

Income:	**$ 0**
Assets:	**$ 2,000**
Income from Assets:	
	$ 2,000
	x .02
	= $ 40

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Case Study 4C: Answer 1

- **EITC payments always excluded from consideration as annual income**
  - None of the $2,000 will be counted as income
- **Funds in a savings account are counted as family assets, regardless of source**
  - Full amount of savings account ($2,000) will be counted as an asset
- **It is not the EITC funds that are counted as income, but the interest earned from those funds after investment**

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Case Study 4C: Answer 2

- **You must correct the error**
  - EITC payments always excluded from consideration as annual income
  - Contact employer and confirm the EITC advanced payment in Kyle's weekly paycheck
  - Ensure that calculation of Kyle's gross employment income for coming year does not include EITC
  - Recalculate annual income and rent for prior year and determine amount of rent overpaid by Kyle, due to the inadvertent counting of EITC
  - Refund amount to Kyle

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Case Study 4C: Answer 2

- **Note:**
  - Add this type of question to the verification form that goes to the employer
  - Explicitly include this type of question in any income recertification interview with the tenant family

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Evaluation

Please help us improve our training by filling out the evaluation form

Thank you!

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