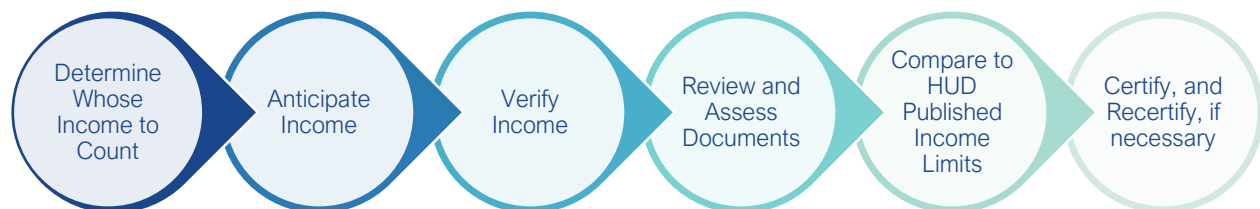




Tool 2-1 - Part 5 and IRS 1040 Income Determinations

Many CDBG funded activities that meet the Low- and Moderate-Income National Objective require grantees to perform a Part 5 income determination for each family before providing assistance. Only Grantees that are implementing microenterprise activities are allowed to perform a 1040 income determination for the family of the business owner being assisted. The process for performing each method is depicted below. Key differences between the two methods are outlined on page 3 and page 4 of this handout.



Steps for Completing Part 5 and IRS 1040 Income Determination Process

1. Determine Whose Income to Count

Determine family size and identify all family members earning income. "Family" means individuals or households, with or without children. As defined at 24 CFR 5.403, "family" includes, but is not limited to, the following, regardless of actual or perceived sexual orientation, gender identity, or marital status: 1) A single person, who may be an elderly person, displaced person, disabled person, near-elderly person, or any other single person; or 2) A group of persons residing together, and such group includes, but is not limited to a family with or without children (a child who is temporarily away from home because of placement in foster care is considered a member of the family); an elderly family; a near-elderly family; a disabled family; a displaced family; and the remaining member of a tenant family. This information should be collected on an initial program intake form.

2. Anticipate Income

Forecast each family member's income over the next 12-month period to arrive at the total projected income.



- 3. Verify Income Two verification procedures are available: 'Third Party Verification' and 'Review of Documents'. Review of Documents is most common. To ensure consistent treatment of applicants, income verification standards should be incorporated into the program guidelines.
- 4. Review and Assess Documents Review income documents provided by the applicant for each family member, such as payroll stubs, tax returns, etc. Pay special attention to inclusions and exclusions for each method (see page 3).
- 5. Compare to HUD Published Income Limits To determine eligibility, compare the total projected (and verified) family income with the most recent HUD income limits, adjusted for family size and by geographic area.
- 6. Certify, and Recertify, if necessary Families must be determined to be income eligible at the time assistance is provided. This declaration of income eligibility is called the income certification. Families must be recertified if assistance is not provided within 12 months of the initial income certification.

Example Family Income Determination



Verified Income:
\$20,000



Verified Income:
\$25,000



Combined
Family Income:
\$45,000



HUD Income Limit 2-
Person Family:
\$39,000



Applicant ineligible
for assistance



Key Differences Between Part 5- and 1040-Income Methods

The key difference between the Part 5- and 1040-Income methods occurs in Step 3: Verify Income and Step 4: Review and Assess Documents. Reminder, only Grantees that are implementing microenterprise activities are allowed to perform a 1040 income determination for the family of the business owner being assisted.

	Part 5	1040
<p><u>Verification Requirements</u></p>	<ul style="list-style-type: none"> Calculate family gross income by reviewing/verifying income documentation, taking into consideration inclusions and exclusions, provided by the family and forecast their income over the next 12 months. 	<ul style="list-style-type: none"> Calculate family gross income using the same method the IRS uses for determining adjusted gross income on the 1040 tax form by reviewing/verifying income documentation provided by the family and projecting income over the next 12 months.
<p><u>Inclusions</u></p> <p>The following are examples of income that must be included in the income determination (list is not exhaustive)</p>	<ul style="list-style-type: none"> Wages, Salaries, and Tips Net business income Interest and other net income from real or personal property Social Security, annuities, insurance policies, pensions, disability or death benefits, etc. Unemployment, disability and worker's compensation Child support payments 	<ul style="list-style-type: none"> Wages, Salaries, and Tips Taxable interest Ordinary Dividends IRA Distributions, Pensions, Annuities 50% of Social Security Benefits Capital gains (or loss) Prizes, awards Gambling, lottery or raffle winnings
	Part 5	1040
<p><u>Exclusions</u></p> <p>The following are examples of income that must be excluded in the</p>	<ul style="list-style-type: none"> Income from employment of children under the age of 18 Payments received for the care of foster children or foster adults 	<ul style="list-style-type: none"> IRA deductions Medical savings account deductions 50% of self-employment taxes Self-employed health insurance deductions



CDBG – National Objectives

income determination (list is not exhaustive)

Common Misconceptions

- Inheritances, insurance payments, capital gains and settlement for personal or property losses
- Medical expenses
- Penalties on early withdrawal of savings
- Paid alimony
- The Part 5 and IRS 1040 methods can be used interchangeably.
- Each program, however, can only use one method uniformly for all applicants.
- Grantees need only to use the gross income reported on the applicant's most recent IRS 1040 tax form.
- Grantees, however, must recreate the same process the IRS uses for determining adjusted gross income using income documentation collected from the applicant.

Below are examples of supporting documentation that may be collected for each source of income a program participant receives to verify that the beneficiary is income eligible. Please note that while third party verification options (denoted by an asterisk * below) are a best practice it is not required so long as the supporting documentation is consistent with the standards below.

Income Documentation Standards

Source of Income	Documentation
Salary	<ul style="list-style-type: none"> • Most recently filed tax returns of each family member, over the age of 18, living in the household (<i>If a family member is not required to complete a tax return, then a Form W-2, a Form 1099-MISC, or other tax statements for the family member may be substituted</i>); or • Most recent pay stubs for each family member, over the age of 18, living in the household (<i>If paid weekly, applicant must submit six (6) consecutive pays tabs; If paid bi-weekly or semi-monthly, applicant must submit three (3) consecutive paystubs; If paid monthly, applicant must submit two (2) consecutive paystubs</i>); or • Employer-generated salary report or letter verifying employment, including current annual income; or • Form 4506 (<i>requested from Internal Revenue Service</i>)*



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SSI / SSDI	<ul style="list-style-type: none"> • Supplemental Security Income (SSI) and/or Social Security Disability Insurance (SSDI) Benefit letter via online login portal stating the applicant’s monthly benefits; <i>or</i> • Copy of three (3) most recent bank statements showing deposits of award check; <i>or</i> • Form SSA-2458 (<i>requested from local Social Security Office for fee</i>)*
Welfare Assistance (i.e., Medi-Cal, WIC, SNAP, FDPIR, TANF, SNP, etc.)	<ul style="list-style-type: none"> • Welfare Assistance Benefit letter via online login portal stating the applicant’s monthly benefits; <i>or</i> • Copy of three (3) most recent bank statements showing deposits of award check; <i>or</i> • Copy of applicant’s three most recent monthly award checks; <i>or</i> • Caseworker-generated letter stating the applicant’s monthly benefits amount
Pension	<ul style="list-style-type: none"> • Pension Benefit letter signed by the administrative agency stating the applicant’s monthly benefits; <i>or</i> • Copy of three (3) most recent bank statements showing deposits of award check; <i>or</i> • Copy of applicant’s three most recent monthly award checks
Alimony / Child Support	<ul style="list-style-type: none"> • Marital Settlement Agreement or Court order establishing the payments; <i>or</i> • Copy of three (3) most recent bank statements showing deposits of award check; <i>or</i> • Copy of applicant’s three most recent monthly award checks; <i>or</i> • Affidavit of child support signed by applicant
Unemployment Insurance	<ul style="list-style-type: none"> • Unemployment Insurance Benefit letter signed by the administrative agency stating the applicant’s monthly benefits; <i>or</i> • Copy of applicant’s payment booklet; <i>or</i> • Affidavit of unemployment signed by applicant
Self-Employed Profits / Net-Income from Operation of a Business	<ul style="list-style-type: none"> • Accounting records such as profit and loss statements showing the net amount after business expenses; <i>or</i> • Previous two years of filed tax returns



CDBG – National Objectives

Interest from Bank Accounts and Cash Funds	<ul style="list-style-type: none">• Bank manager-generated letter stating amount of interest earned; <i>or</i>• Previous 12 months of bank statements showing the amount of interest earned; <i>or</i>• Most recent tax return showing amount of interest earned; <i>or</i>• Investment statements indicating the amount of dividends earned
Rental Property Income	<ul style="list-style-type: none">• Most recently filed tax returns declaring earned rental income; <i>or</i>• Copy of property rental / lease agreement signed by the current tenant showing monthly rent; <i>or</i>• Copy of most recent rental payment check; <i>or</i>• Copy of rental receipt book

Disclaimer: these examples are the most common sources of income and supporting documentation. While this list is extensive, it is not exhaustive, and other sources of income or supporting documentation may be included so long as it is commensurate with the standards outlined above.

Use of Self Certifications in-lieu of Income Documentation for Public Service Activities



Most public service activities can use a self-certification form completed by the applicant in-lieu of a full Part 5 or IRS 1040 method for income determination. A self-certification is where the applicant states and signs-off on their income at the time of assistance.

Resources

[HUD Income Limits](#)

[CPD Income Eligibility Calculator](#)

[Part 5 Income Determination Tool](#)

[Technical Guide for Determining Income](#)