Idaho Housing and Finance Association
www.idahohousing.com

Section 3 Income Certification and Calculation Requirements

Idaho Housing and Finance Association follows Part 5 Annual Gross Income, also known as Section 8 Income, to calculate income for all Federal Program recipients, including HOME, Housing Trust Fund, and the Neighborhood Stabilization Program. Net income or any kind of adjusted income is not permitted.

Section 3 requires the use of individual income (only an individual workers income), and *does not* use household income. The current income limits are found on the right hand side of the HOME Programs Website, on the HUD Exchange - HOME Income Limits, or Income Limits - HUD USER on HUD's website. The limits found on the "1 Person" column for the county or metro area in which the project is located, is the maximum amount a worker can earn annually to qualify as Section 3 based on their individual income.

Please direct any questions regarding income calculation, income limits, and qualification to the nonprofit or developer in charge of the Section 3 project. The developers will assist with the qualification process, and will contact IHFA for any additional clarification, as needed. You can also visit our website for additional Section 3 information and opportunities - HUD Section 3 Resources

Part 1: Acceptable income sources and requirements:

- ***W-2's or 1099's – Preferred***
  - Must be from the previous calendar year
  - Must show gross income and not just taxable income
  - Worker must have worked for the employer for the entirety of the previous year (January 1 – December 31). If not employed Jan-Dec of the previous year, W-2 or 1099 cannot be used.

- ***Employer's internal payroll/accounting records***
  - Must have acceptable payroll software or internal accounting records that can be provided to IHFA or HUD if requested
  - Must cover full 12 months, and include all types of income, including but not limited to: regular pay, overtime, bonuses, commissions, awards, incentives, etc.
  - Employer may pull records from the date of certification going back 12 full months, or may pull the total the worker earned the previous year, provided worker was employed all 12 months (January 1 – December 31) of that year
  - For workers whose total employment with the employer is less than 12 months, the calculation below in Part 2 to project annual income must be used.

- ***Pay stubs - Suggested only if the two previous methods are not feasible***
  - Must collect 12 full months of pay stubs and total them – if worker has been employed less than 12 months, all pay stubs from the entirety of their current employment must be collected, and the calculation below in Part 2 for projecting annual income will be required.

    - Gross amounts of all income, including hourly pay, overtime, bonuses, commissions or any other type of income must be counted

- *Tax Return (1040)* **– ONLY FOR SCHEDULE C SELF-EMPLOYMENT INCOME**
    - Must be most recently filed return, usually the previous year
    - If Tax Return for previous year has not been filed by April 15th, or any federal or state extension date that may be imposed, copy of extension will be required to accept an older return, and financial statements from the previous year will be required.
    - Must include entire return, not only first two pages or only the Schedule C
    - **Schedule C – must use calculation below in Part 3 for Schedule C income**
    - If worker has been self-employed for less than 12 months, please use current financial statements and use the calculation in Part 3 to figure the current Schedule C income, *then* use the projection calculation in Part 2 to project the income for 12 months

Employer must retain certifying documentation for a minimum of five (5) years from the time of certification.

Part 2: Calculating Income for workers employed less than 12 months:

If a worker has been with the employer for less than 12 months, annual income must be projected based on the full amount of gross pay the worker has received since employment began. Follow the required steps below to project a workers income:

- **Step 1** – Determine Gross Income since employment began. This includes all overtime, **bonuses, **commissions, **awards, **incentives, etc. Employer may pull bookkeeping/payroll records for the entirety of workers employment, or may collect pay stubs from the entirety of workers employment and total them to determine gross income. If worker was hired in the current year with no income from employer the previous year, year to date gross income for all categories on the most recent pay stub may be used.

- **Step 2** – Divide gross income total by the number of weeks, or pay periods* worker has been employed to determine the average income the worker earns during that timeframe. ***See note below.

- **Step 3** – Multiply the average by the chosen timeframe (weeks, or pay periods*) that equals 12 months to determine projected income.

**Pay Period Reference: The number of pay periods in a 12 month timeframe is dependent on the pay schedule. Every other week (bi-weekly) is equal to 26 pay periods, twice a month (semi-monthly) is 24 pay periods, monthly is 12 pay periods, and weekly is 52 pay periods.*

***Bonus, commission or other award/incentive Income: Must be included in calculation, but one-time bonuses/awards/incentives do not need to be projected. If bonuses, commissions, awards, incentives, etc. are received intermittently or regularly, that income must be projected as part of the workers total projected income. If the exact amount of bonuses/incentives in a 12 month timeframe is known, it may be added to the top of the income vs. projecting income for those categories. One-time bonuses should be added to the top of the calculation, but should not be considered part of the workers regular projected income.*

****Since HUD requirements for income calculation differ from lender or other market guidelines, monthly calculations are typically inaccurate for the purposes of Section 3 income and are not acceptable in most cases. 12 full months of income would be required to use a monthly calculation. Since this calculation is for a* *worker employed less than 12 months, any monthly calculation for the purposes of Section 3 certification would be invalid.*

Example:

It's October 4, 2021 and Joe Employee has been employed with ABC Construction for just under seven months. He's worked a total of 30 weeks, with 15 pay periods and he gets paid bi-weekly on Fridays. He started employment with ABC Employer on March 8, 2021, and his first payday was Friday March 19, 2021. He makes $19.00 an hour plus some regular variable overtime. His year to date (YTD) income with ABC Employer is $30,710, which includes $22,800 in base pay, $7,410 in overtime pay, and a $500 one-time sign on bonus. No other bonuses are expected.

Since $500 of the total income is a one-time bonus, it is removed from the total income to perform the calculation without duplicating bonus income the worker is not expected to receive. It is added back to the top at the end of the calculation. See sample calculation below.

Weekly Calculation (30 weeks worked)	**Per Pay Period Calculation (15 pay periods worked)**	**Monthly Calculation**
$30,710.00 -500.00 one-time bonus $30,210.00 earned income $30,210.00 ÷ 30 weeks $1,007.00 per week average $1,007.00 X 52 weeks $52,364.00 projected earned income $52,364.00 + 500.00 one-time bonus **$52,864.00 Total Projected Section 3 Income**	$30,710.00 -500.00 one-time bonus $30,210.00 earned income $30,210.00 ÷ 15 pay periods $2,014.00 pay period average $2,014.00 X 26 pay periods $52,364.00 projected earned income $52,364.00 + 500.00 one-time bonus **$52,864.00 Total Projected Section 3 Income**	Worker does not have full 12 months of income history with employer – calculation not valid .

Part 3: Calculating Schedule C income:

For workers who are self-employed and file taxes using a Schedule C on their 1040 personal tax return, the income from the previous years' return must be used to determine the gross income of the worker for the purposes of section 3. Refer to "Acceptable income sources and requirements" above in Part 1 for specific requirements for tax returns.

Follow these steps:

1. On the 1040 return, locate "Gross income" on line 7 of the Schedule C
2. Subtract the "Total expenses" on line 28 from the "Gross income" amount on line 7
3. Add the "Depreciation and section 179 expense deduction" on line 13 back to the running total. The total number after this third step is the gross income that will be used for section 3 qualification purposes

7	**Gross income.** Add lines 5 and 6				▶	7	96,847
Part II	**Expenses.** Enter expenses for business use of your home **only** on line 30.						
8	Advertising	8		18	Office expense (see instructions)	18	
9	Car and truck expenses (see instructions)	9		19	Pension and profit-sharing plans	19	
10	Commissions and fees	10		20	Rent or lease (see instructions):		
11	Contract labor (see instructions)	11		a	Vehicles, machinery, and equipment	20a	
12	Depletion	12		b	Other business property	20b	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13	5,432	21	Repairs and maintenance	21	
				22	Supplies (not included in Part III)	22	
				23	Taxes and licenses	23	
				24	Travel and meals:		
14	Employee benefit programs (other than on line 19)	14		a	Travel	24a	
				b	Deductible meals (see instructions)	24b	
15	Insurance (other than health)	15		25	Utilities	25	
16	Interest (see instructions):			26	Wages (less employment credits)	26	
a	Mortgage (paid to banks, etc.)	16a		27a	Other expenses (from line 48)	27a	
b	Other	16b		b	**Reserved for future use**	27b	
17	Legal and professional services	17					
28	**Total expenses** before expenses for business use of home. Add lines 8 through 27a				▶	28	48,314

Example:

James Employee is the sole proprietor for ABC Sprinklers. He reports his income via Schedule C on his 1040. He was hired to install sprinklers in the front yard for a unit that is subject to Section 3 requirements. Assume the numbers shown in the example above came from the Schedule C on James' most recent 1040 from the previous year. His income would be calculated as follows:

$96,847 Gross Income - Line 7
-48,314 Expenses – Line 28
$48,533

$48,533
+5,432 Depreciation – Line 13
$53,965 Total gross income to use for Section 3

Additional information about Section 3 and how Idaho Housing and Finance Association is complying with the final rule is available in the HOME Programs Department's current annual Administrative Plan Exhibit G: HOME Programs

If you'd like to view the Section 3 Final Rule, it can be found on the Federal Register: Section 3 Final Rule

All methods outlined in this document have been approved by HUD for calculation and certification of Section 3 income. Any alternate method of calculation must be approved by IHFA prior to any certification. IHFA, at their sole discretion, reserves the right to decline the use of any calculation that does accurately reflect the income of the worker or business owner, or any calculation that does not meet HUD or IHFA requirements.