Housing Consultants of America

HUD INCOME CALCULATIONS

The Most Common Mistakes in Tenant Files

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Income calculation errors are among the easiest tenant-file problems to create - and among the most expensive to repeat across a portfolio. A single incorrect pay frequency, missed income source, unsupported exclusion, or outdated verification can affect annual income, adjusted income, tenant rent, assistance, and the accuracy of the certification itself. For HUD-assisted properties, the safest approach is not to memorize a formula. It is to use a disciplined process that identifies every income source, applies the correct rule, documents the calculation, and leaves an audit trail another reviewer can reproduce.

HCA RULE OF THUMB: A reviewer should be able to look at the documents in the file and independently arrive at the same income figure entered on the certification.

Mistake #1: Annualizing Pay Without Understanding the Pay Pattern

One of the most common mistakes is multiplying a single paycheck by a standard frequency without first asking whether the check is representative. Overtime, shift differentials, bonuses, fluctuating hours, unpaid leave, seasonal schedules, and recent wage changes can make a simple multiplication inaccurate.

- Confirm the pay frequency and expected number of pay periods.
- Review enough current information to identify a representative pattern.
- Separate recurring overtime or differentials from truly nonrecurring amounts when required by current HUD rules.
- Document why the selected calculation method reasonably reflects anticipated income.

Mistake #2: Using Net Pay Instead of Gross Income

Tenant files sometimes contain calculations based on take-home pay. Payroll deductions for taxes, insurance, retirement, garnishments, or other items generally do not convert wages into 'net income' for HUD annual-income purposes. Staff should identify the applicable gross earnings and then apply HUD's inclusion and exclusion rules.

FILE REVIEW TIP: Do not rely on the amount deposited into the tenant's bank account as proof of gross wages.

Mistake #3: Treating EIV as the Calculation Itself

EIV is a critical verification and discrepancy-resolution tool, but staff must follow the verification methodology applicable to the certification. Historically, HUD Handbook 4350.3 instructed owners not to use quarterly EIV wage totals themselves to calculate annual employment income; the file needed supporting information for the actual calculation. As HOTMA implementation changes income-verification practices, owners should follow HUD's current Multifamily HOTMA guidance and their approved procedures rather than relying on an old EIV routine.

Mistake #4: Missing a Household Member's Income

A beautifully calculated wage figure is still wrong if another countable income source was never identified. Interviews and file reviews should look beyond the head of household.

- Wages and self-employment
- Social Security and other benefits
- Pensions and retirement income
- Unemployment or other recurring benefits
- Asset income when applicable
- Income of minors, dependents, students, live-in aides, foster members, and other household members - applying the correct inclusion or exclusion rule

Mistake #5: Including Income HUD Excludes

More income is not always more accurate. HOTMA revised the annual-income framework and identifies numerous exclusions. HUD's Multifamily HOTMA training materials discuss exclusions such as certain nonrecurring income, qualifying student financial assistance, certain trust distributions, loan proceeds, certain foster/live-in aide income, and other categories.

COMMON FAILURE POINT: Staff sometimes use an old 'income inclusions' cheat sheet and count a payment automatically because it appears on a bank statement. The source and applicable HUD rule matter.

Mistake #6: Excluding Income Without Documenting Why

The opposite error is just as serious. If an amount is excluded, the tenant file should make the reason understandable. A reviewer should not have to guess why a recurring deposit, payment, or benefit was left out of annual income.

- Identify the payment source.
- Document the rule or category supporting the exclusion.
- Retain verification sufficient to show that the payment actually qualifies for the exclusion.
- Use notes-to-file sparingly and never as a substitute for required verification.

Mistake #7: Confusing Gross Business Revenue With Self-Employment Income

Self-employment files frequently go wrong because staff either count all business deposits as household income or accept a tax return without understanding what period and business activity it represents. Current HUD guidance should be applied to determine the countable income from a business, and the file should clearly support the calculation and treatment of business expenses.

Mistake #8: Mishandling Assets and Income From Assets

Assets create two separate questions: what is included in net family assets, and what income from those assets is included in annual income. HOTMA substantially changed the asset framework, including definitions, exclusions, self-certification rules in certain circumstances, and when imputed asset income may apply.

- Identify ownership and access to the asset.
- Determine whether the item is an included or excluded asset.
- Determine whether actual income is generated.
- Apply the current HUD rule for imputed income when applicable.
- Do not automatically treat every bank balance or property interest the same way.

Mistake #9: Using Outdated Dollar Amounts, Deductions or Thresholds

HOTMA introduced annual inflation adjustments for multiple values used in income, asset, and adjusted-income determinations. That makes old desk guides especially risky. A worksheet saved from a prior year can produce a technically clean but incorrect certification.

BEST PRACTICE: Maintain one controlled annual HUD values sheet and retire prior-year versions from staff desktops and shared folders.

Mistake #10: Calculating Annual Income Correctly - Then Calculating Adjusted Income Incorrectly

Annual income and adjusted income are not interchangeable. Once annual income is established, applicable deductions must be evaluated under the rules for the household and program. Errors in dependent deductions, elderly/disabled family deductions, eligible expenses, hardship provisions, or other adjustments can change tenant rent even when gross annual income is correct.

Mistake #11: Ignoring Changes Expected During the Certification Period

Income calculations are not always a backward-looking exercise. Staff need to understand what is expected prospectively under the rule applicable to the certification. A new job, scheduled raise, known reduction in hours, benefit change, or other anticipated event may affect the correct calculation.

Mistake #12: Failing to Reconcile the Math to the Certification and Software

A reviewer may find that the paper calculation is correct but the amount entered into the property-management system is not. Data-entry errors, wrong effective dates, incorrect income codes, duplicated income sources, or software defaults can change the final certification.

☐ Recalculate before finalizing.

☐ Compare the source documents to the worksheet.

☐ Compare the worksheet to the software.

☐ Compare the software to the final certification/rent calculation.

☐ Have a second reviewer examine higher-risk or unusual files.

A Strong HUD Income Calculation File Should Tell a Story

The File Should Show	The Reviewer Should Understand
Household interview / declaration	Who has income and what changed
Verification	Where the income figure came from
Calculation	How the annual amount was derived
Inclusion / exclusion treatment	Why the income is counted or excluded
Asset documentation	How asset income was treated

Adjusted-income documentation	Which deductions apply and why
Software / certification	That the final numbers match the supporting file

HCA's 10-Minute Income Calculation Quality Check

☐ Did we identify every household member and potential income source?

☐ Are all verifications current and acceptable under the applicable HUD rules?

☐ Did we use gross rather than take-home earnings where required?

☐ Is the pay frequency correct?

☐ Did we account for fluctuating or anticipated income appropriately?

☐ Did we apply current income exclusions rather than an outdated list?

☐ Are asset income and asset exclusions handled correctly?

☐ Are current-year indexed values and deductions being used?

☐ Does the math match the software and final certification?

☐ Could another compliance professional reproduce the calculation from the file without asking the preparer what happened?

HOTMA Makes File Quality More Important - Not Less

HUD's HOTMA changes are reshaping income and asset determinations. HUD's Multifamily HOTMA page currently states that the mandatory date for full compliance with the HOTMA Final Rule and revised income and asset documentation standards is January 1, 2027. That means owners and agents should use 2026 to update policies, train staff, test software workflows, and remove obsolete calculation tools before the transition becomes mandatory.

Final Takeaway

Most HUD income errors are not caused by difficult arithmetic. They are caused by incomplete interviews, inconsistent verification, outdated rules, unsupported assumptions, and missing quality control. The solution is a repeatable file process: identify, verify, classify, calculate, document, reconcile, and review. When every certification follows that sequence, the property is better positioned for accurate rents, cleaner audits, stronger MOR results, and fewer corrections later.

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How Housing Consultants of America Can Help

Housing Consultants of America provides HUD and LIHTC file audits, third-party compliance support, recertification and backlog assistance, MOR preparation, HOTMA readiness, training, and temporary occupancy/compliance staffing. HCA can review individual files or larger portfolios to identify calculation errors, documentation gaps, and systemic compliance risks before they become findings.

ABOUT THE AUTHOR

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Jenna Ghisolfo is President of Housing Consultants of America, supporting affordable housing organizations with compliance, training, file review, staffing, and operational solutions.

HUD References

- HUD Handbook 4350.3, Occupancy Requirements of Subsidized Multifamily Housing Programs - Chapter 5, Determining Income and Calculating Rent.
- HUD Multifamily HOTMA resources and Determining Income training materials.
- HUD HOTMA Resources - Income Review and Asset Limitations (Sections 102 and 104).

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