Rental Property Income

This section concerns rental property income, including boarders, roomers, and commercial boarding houses.

Policy

Rental Property, Boarders, and Roomers

When a participant homeowner receives income from a rental property, boarder, or roomer, the income is countable as unearned income when an NA or CA participant manages the property for less than 20 hours per week.

NOTE When the participant has at least one allowable business expense for the rental property, FAA deducts 40% from the gross income and counts the net income. See Example 1.

FAA considers rental property as countable self-employment income when a participant manages the property for 20 hours or more per week, e.g., rent collection, maintenance, or other work. See self-employment for details.

A boarder is a nonparticipant who pays a participant for providing a room and meals. Income from a boarder not included in the budgetary unit is countable and considered self-employment(g) when the definition is met.

NOTE FAA considers boarder income as countable unearned income when it does not meet the definition of self-employment.

See Boarders(g) for more information about why a boarder may or may not be included in the budgetary unit.

Commercial Boarding House

When a participant is the owner-operator of a commercial boarding house, the income received is countable self-employment income. This income is paid for services such as shelter and meals.

A 40% self-employment expense deduction is allowed for NA and CA when at least one self-employment expense is verified.

For NA, the 20% earned income deduction is allowed for self-employment income.

Countable income is used to determine an income budget. (See Income Budgeting to see how FAA determines the income budget.) FAA needs to know about income that is both countable and not countable to determine whether a budgetary unit's expenses are exceeding their income. (See Income Eligibility for more information about how FAA uses countable and not countable income.)

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Procedures

For any rental, roomer, or boarder income, when there is verification that at least one allowable business expense exists, manually deduct 40% from the gross rental property income. The income counts as unearned income.

For self-employment income, determine the identifiable allowable business expense when the owner of the rental property does not have a separate meter, and ***all*** of the following occur:

- The owner resides in the home.
- The owner manages the property.

When the participant is present, have them sign the Authority to Release Information (FAA-1765A) form to contact any companies or businesses involved. The FAA-1765A can be faxed or emailed to the participant's employer when it is not possible to use the Application for Benefits (FAA-0001A) or the HEAplus Authority to Release signed statement.

Documentation must support determinations of eligibility and benefit level. Document in sufficient detail to ensure that any reviewer can assess whether the determination is reasonable and accurate. Include specific information regarding the reason the income is determined to be reasonably expected to continue. (See Budgeting Income Documentation Requirements for additional information.)

Verification

System interface and the case file(g) must be reviewed before verification is requested. No additional verification is needed when AZTECS interface or HEAplus hubs have verified the information.

The participant has the primary responsibility for providing verification. (See Participant Responsibilities – Providing Verification for additional policy.)

For NA, income is required to be verified for ***all*** of the following before eligibility is determined:

- When reported on a new application, during the interview of a new application, or changes reported before the eligibility determination of a new application.
- For changes reported after an eligibility determination of a new application (e.g., a renewal application, mid approval contact, etc.) and ***any*** of the following apply:

The source of the income has changed.

The income is questionable(g) or unclear(g).

The reported income amount has changed by $51 or more.

The previous verification in the case file is more than 59 calendar days(g) old.

For CA, all income is required to be verified before determining eligibility.

Examples of verification that can be used for rental property include, and are not limited to, ***any*** of the following:

- Rental lease agreements
- Bank records
- Court records or court orders
- Current check reflecting gross income (Do not copy federal government checks)
- Federal or state tax forms
- Statement from the agency or payer providing the income

Examples of verification that can be used for self-employment income and expenses include, and are not limited to, ***any*** of the following:

- Bookkeeping records
- Business ledgers listing income amounts received and expenses incurred
- Actual receipts
- Contracts for work
- Statements from patrons and companies
- Most recent Internal Revenue Service (IRS) U.S. Individual Income Tax Return (1040) form. Below are common IRS Schedule forms that the participant may provide in addition to the 1040:

  Schedule C, Profit or Loss From Business

  Schedule E, Supplemental Income and Loss

  Schedule F, Profit or Loss from Farming

  Schedules B-1, C, D, K, K-1, K-2, K-3, and M-3 of IRS U.S. Return of Partnership Income (1065) form (See Limited Liability Company (LLC) Definition for more information about LLCs.)

  NOTE Do not use the most recent IRS 1040 and Schedule forms when the participant indicates it does not accurately reflect the participant's current income.

- Rent or mortgage receipt for business property
- Property tax statements for business property

- Utility costs for business property
- Cleaning cost bills for business property
- Business location and equipment maintenance
- Personal records indicating personnel salaries or costs of outside labor, such as canceled checks and payroll checks

NOTE When self-employment expenses are not verified, eligibility is determined without the 40% Self-Employment Expense deduction.

AZTECS Keying Procedures

Key rental property income on the appropriate AZTECS screen based on the type of income, complete ***one*** of the following:

- For FS, key the RE Unearned Income Code in the INC TYP field and key FS in the Sub Type code in the SUB TYP field on UNIN.
- For CA, key the RE Unearned Income Code in the INC TYP field and key AF in the Sub Type code in the SUB TYP field on UNIN.
- Key commercial boarding house income on SEEI. Key the OB Self-Employment Income Type Code in the INCOME TYPE field.
- Key boarder income on SEEI, key the RB in the INCOME TYPE field.
- See the AZTECS Key Procedures for Budgeting Self-Employment Income for more information about keying self-employment income and expenses.

Document the case file(g) thoroughly to support keyed codes, amounts, and frequencies. See the AZTECS Data Entry Guide for instructions on keying the AZTECS income screens.

Examples

1) Murray owns two houses.

   He rents one house and lives in the second. Murray's tenant pays $1,000 per month for rent. Murray pays $500 for mortgage, insurance, and taxes.

   Murray spends approximately five hours per week managing his rental property.

   Since Murray spends an average of less than 20 hours per week managing his property, his rental income is unearned income. Murry is eligible for the standard 40% self-employment deduction because there is verification that an allowable business expense exists.

   The standard 40% self-employment deduction is manually deducted from Murray's rental income as follows:

   .40 X $1,000 = $400

   $1,000 - $400 = $600

   Key the RE FS in the INC TYP field and $600 in the amount field on UNIN.

Legal Authorities

7 CFR 273.9(b)(1)(ii)

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Prior Policy

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