



Last Reviewed: 8-17-2023



HELPFUL TIPS

FROM THE

UNDERWRITING HELPDESK

NON-TAXABLE INCOME

Regular sources of income that may be non-taxable include:

- Child Support Income
- Social Security Benefits
- Worker’s Compensation Benefits
- Certain types of Public Assistance
- Food Stamps
- Federal and State Government Employee Retirement Income
- Military Allowances

For additional information on taxable and non-taxable income, please see the [IRS Income Quick Reference Guide](#).

Non-taxable Income: Gross-Up Factors	
Fannie Mae	<p>Gross-Up Factor: 25%</p> <ul style="list-style-type: none"> • Must be verified as non-taxable income; supporting documentation can include award letters, policy agreements, account statements, tax returns or other documents that support non-taxable status of income. • If the actual amount of federal and state taxes that would generally be paid by a wage earner in a similar tax bracket is more than 25% for the borrower’s nontaxable income, the lender may use that amount to develop the adjusted gross income, which should be used in calculating the borrower’s qualifying ratio. <p>Example:</p> <ul style="list-style-type: none"> • \$1000 monthly income X 25% = \$250 that can be added • \$1000 + \$250 = \$1250 total adjusted gross income
Freddie Mac	<p>Gross-Up Factor: 25%</p> <ul style="list-style-type: none"> • Must be verified as non-taxable income; supporting documentation includes most recent tax return for the past year, or other documentation evidencing the income (or portion of income) is tax exempt. • For Social Security income (i.e., retirement income, disability benefits, survivor benefits and Supplemental Security Income), the Seller may gross up 15% of the income without obtaining additional documentation. For example, if the Borrower’s Social Security income is \$1,000/month, the Seller can gross up \$150 (i.e., 15% of \$1,000) without obtaining documentation that this portion of the income is tax exempt. • If the actual amount of federal and state taxes that would generally be paid by a wage earner in a similar tax bracket is more than 25% for the borrower’s nontaxable income, the lender may use that amount to develop the adjusted gross income, which should be used in calculating the borrower’s qualifying ratio. <p>Examples:</p> <ol style="list-style-type: none"> Entire income is tax exempt (with documentation): <ul style="list-style-type: none"> • \$1000 monthly income X 25% = \$250 that can be added • \$1000 + \$250 = \$1250 total adjusted gross income



Last Reviewed: 8-17-2023

	<p>2. Portion of income is tax exempt (without documentation):</p> <ul style="list-style-type: none"> • \$1000 monthly income X 15% = \$150 portion tax exempt • \$150 portion tax exempt X 25% = \$37.50 that can be added • \$1000 + \$37.50 + \$1037.50 total adjusted gross income
FHA	<p>Gross-Up Factor: 15%</p> <ul style="list-style-type: none"> • Must be verified as non-taxable income; supporting documentation includes most recent tax return for past year, as well as other supporting documentation to show that the income is non-taxable. • The percentage of Nontaxable income that may be added cannot exceed the greater of 15% or the appropriate tax rate for the income amount, based on the borrower's tax rate for the previous year. • If the borrower is not required to file tax returns the Mortgagee may gross up Nontaxable income by 15%. • The Mortgagee cannot make any additional adjustments or allowances based on the number of the Borrower's dependents. <p>Example:</p> <ul style="list-style-type: none"> • \$1000 monthly income X 15% = \$150 that can be added • \$1000 + \$150 = \$1150 total adjusted gross income
VA	<p>Gross-Up Factor: 25%</p> <ul style="list-style-type: none"> • Must be verified as non-taxable income; supporting documentation includes most recent tax return for past year, as well as other supporting documentation to show that the income is nontaxable. • Tax-free income may be "grossed up" for the purpose of calculating DTI only. <p>Example:</p> <ul style="list-style-type: none"> • \$1000 monthly income X 25% = \$250 that can be added • \$1000 + \$250 = \$1250 total adjusted gross income
USDA/RD	<p>Gross-Up Factor: 25%</p> <ul style="list-style-type: none"> • Must be verified as non-taxable income; supporting documentation includes most recent tax return for past year, as well as other supporting documentation to show that the income is non-taxable. <p>Example:</p> <ul style="list-style-type: none"> • \$1000 monthly income X 25% = \$250 that can be added • \$1000 + \$250 = \$1250 total adjusted gross income