

## 5. Non Taxable and Projected Income

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**Introduction** This topic contains information on analyzing non-taxable and projected income, including

- types of non-taxable income
  - regular, non-taxable income
  - analyzing projected income, and
  - projected income for a new job.
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**4155.1 4.E.5.a  
Types of Non  
Taxable Income** Certain types of regular income are not subject to Federal tax. Such types of non-taxable income include

- some portion of Social Security, some Federal government employee retirement income, Railroad Retirement Benefits, and some state government retirement income
  - certain types of disability and public assistance payments, and
  - military allowances.
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**4155.1 4.E.5.b  
Adding Non  
Taxable Income  
to a Borrower's  
Gross Income** The amount of continuing tax savings attributed to regular income not subject to Federal taxes may be added to the borrower's gross income.

The percentage of non-taxable income that may be added *cannot* exceed the appropriate tax rate for the income amount. Additional allowances for dependents are *not* acceptable.

The lender

- must document and support the amount of income *grossed up* for any non-taxable income source, and
- should use the tax rate used to calculate the borrower's last year's income tax.

**Note:** Use the 25 percent tax rate for borrowers not required to file a federal income tax return.

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