



How to gross up fixed income

All forms of mortgages allow for grossing up of certain types of nontaxable income. The reason nontaxable income can be grossed up is because typically mortgage loans go by a borrower’s gross income (pre-taxed). The amount that nontaxable income can be grossed up depends on the loan type and the tax rate that the borrower is in.

Examples of types of income that all or portions can be grossed up are:

- Social Security (if not taxed on the tax returns)
- Disability income like social security, VA, or other forms of disability income expected to continue 3+ years
- Nontaxable pension
- Retirement income
- Child Support

FHA, Conventional and VA Financing:

If the borrower(s) do not have to file a tax return, then the income may be grossed up income by 10 - 15%. The grossed up figure is determined by taking the income amount multiplying it by 115% or 1.15 (if 10% = 110% or 1.10). The amount to allow for grossing up is determined by the tax bracket the borrower is in per the most recent Federal Tax Return.

To locate this information:

Determine how they filed. Single? Married?

Then determine the household income bracket and identify the marginal rate from here. The marginal rate is the amount allowed for grossing up:

<u>If your filing status is Single</u>		
<u>Taxable Income</u>		
<u>Over ---</u>	<u>But not over ---</u>	<u>Marginal Rate</u>
\$0	\$9,225	10%
\$9,225	\$37,450	15%
\$37,450	\$90,750	25%
\$90,750	\$189,300	28%
\$189,300	\$411,500	33%
\$411,500	\$413,200	35%
\$413,200	and over	39.6%

<u>If your filing status is Married filing jointly</u>		
<u>Taxable Income</u>		
<u>Over ---</u>	<u>But not over ---</u>	<u>Marginal Rate</u>
\$0	\$18,450	10%
\$18,450	\$74,900	15%
\$74,900	\$151,200	25%
\$151,200	\$230,450	28%
\$230,450	\$411,500	33%
\$411,500	\$464,850	35%
\$464,850	and over	39.6%

If your filing status is Head of Household			If your filing status is Married filing separately		
Taxable Income			Taxable Income		
Over ---	But not over ---	Marginal Rate	Over ---	But not over ---	Marginal Rate
\$0	\$13,150	10%	\$0	\$9,225	10%
\$13,150	\$50,200	15%	\$9,225	\$37,450	15%
\$50,200	\$129,600	25%	\$37,450	\$75,600	25%
\$129,600	\$209,850	28%	\$75,600	\$115,225	28%
\$209,850	\$411,500	33%	\$115,225	\$205,750	33%
\$411,500	\$439,000	35%	\$205,750	\$232,425	35%
\$439,000	and over	39.6%	\$232,425	and over	39.6%

The maximum allowed for grossing up is 115%.

FSB will require verification of non-filing of tax returns. This is documented through ordering/processing of the 4506T. The results should read: No Return Available. This is to be uploaded as proof the borrower does not need to file returns in conjunction with the Award Letters for the income that will be grossed up.

USDA

USDA allows for an automatic “grossing up” of 125%. The income to be grossed up must supply Award Letters and proof of non-filing for tax returns, as well.

Award Letters MUST be provided. Alternative documentation is not acceptable.

Award letters will verify continuance of income and confirm the most recent information for receipt of the income. Award Letters are required for the year we are underwriting in. The majority of Award Letters are issued in January for the year.

Child support will not have an award letter. A divorce decree with property settlement showing child support payments or appropriate court documentation must be provided along with proof of receipt of the support for the most recent 12 months.