

## Grossing Up Non-Taxable Income



Can non-taxable income be grossed up? In many cases, non-taxable income can be grossed up. Each agency has specific guidelines for this topic. Please see below for all of the details.

### Conventional

**FNMA**—When the income is verified to be non-taxable, and the income and its tax-exempt status are likely to continue, the lender may develop an “adjusted gross income” for the borrower by adding an amount equivalent to 25% of the non-taxable income to the borrower’s 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% of the borrower’s non-taxable income, we may use that amount to develop the adjusted gross income. Tax returns are required to prove non-taxable.

Example—Take Net of 1330 x 1.25 = 1625

**FRED**—Income can be grossed up by taking 15% of the net income and then multiplying that by 25% then add that figure to the net income. Tax returns are not required to prove non-taxable. Example—Take Net of 1300 x .15 = 195 x .25 = 48.75 + 1300 = 1348.75

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**FHA** — The percentage of non-taxable 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 was not required to file a federal tax return for the previous tax reporting period, the mortgagee may gross up the non-taxable income by 15%.

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**USDA** — Income that has been verified to be tax exempt may be grossed up 25% for repayment income, regardless of what tax bracket the borrower is in. Tax exempt income sources should not be grossed up when calculating annual income.

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**VA** — Tax-free income may be grossed up for the purpose of calculating the DTI ratio, however it cannot be used when figuring residual income. We will use the current income tax withholding tables to determine an amount which can be prudently employed to adjust the