



**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, Freddie Mac & VA Financing:**

If the borrower(s) do not have to file a tax return or the income is not taxed on their current 1040 returns, then the income may be grossed up by 10 - 12%. The grossed-up figure is determined by taking the income amount multiplying it by 112% or 1.12. The amount to allow for grossing up is determined by the tax bracket the borrower is in per the most recent Federal Tax Return.

**2021 Income Tax Brackets**

Tax Brackets and Rates, 2021				
Rate	For Unmarried Individuals	For Married Individuals Filing Joint Returns	Married filing separately	For Heads of Households
10%	\$0 to \$9,950	\$0 to \$19,900	\$0 to \$9,950	\$0 to \$14,200
12%	\$9,951 to \$40,525	\$19,901 to \$81,050	\$9,951 to \$40,525	\$14,201 to \$54,200
22%	\$40,526 to \$86,375	\$81,051 to \$172,750	\$40,526 to \$86,375	\$54,201 to \$86,350
24%	\$86,376 to \$164,925	\$172,751 to \$329,850	\$86,376 to \$164,925	\$86,351 to \$164,900
32%	\$164,926 to \$209,425	\$329,851 to \$418,850	\$164,926 to \$209,425	\$164,901 to \$209,400
35%	\$209,426 to \$523,600	\$418,851 to \$628,300	\$209,426 to \$314,150	\$209,401 to \$523,600
37%	\$523,601 or more	\$628,301 or more	\$314,151 or more	\$523,601 or more

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:

**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 4506C. 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.

If the borrowers DO file tax returns, the returns should be checked to see if the fixed income is listed as taxable income. If it is, the fixed income cannot be grossed up.

**USDA & Fannie Mae**

USDA & Fannie Mae 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 or current 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 6 months.