302.07.04 NON-BUSINESS, INCOME-PRODUCING PROPERTY – UP TO $6000 EQUITY EXCLUDED IF RATE OF RETURN IS 6% (SSI)

Non-business, income-producing property is defined as property which includes land that produces rents or other land-use fees (e.g., non-liquid notes or mortgages, ownership or timber rights, mineral or oil exploration) or other non-liquid property which provides rental or other income, but is not used as part of a trade or business.

Procedure – SSI Resource Policy

When an individual alleges owning non-business real property that produces income, document the following:
 	
• The number of years he has owned the property
• Any co-owners of the property
• A description of the property
• The estimated CMV of the property and any encumbrances
• The estimated net and gross income from the property for the current tax year
 	
Verification:
 	
• Establish that the property is producing income:
  o If available, obtain a copy of the tax return for the year prior to filing the application or redetermination.
  o When no tax returns are available, obtain other evidence, e.g., a person leasing land for mineral or oil exploration should have a copy of the lease agreement for the period in question.
• Verify the equity value of the property
 	
Treatment
 	
• This exclusion applies to non-business, income-producing property
• Up to $6000 of the equity value can be excluded from resources if the property produces a net annual return equal to at least 6% of the excluded equity value
• Any equity that exceeds $6000 counts toward the resource limit
• If the net annual return is less than 6%, the entire equity value is counted

Non-Business, Income Producing Property (Continued)

Procedure – SSI Resource Policy

Example: At review, Mr. Cameron reports that he lives in an apartment and is renting out his formerly excluded home, which has an equity value of $13,000. Even if the property produces a 6% net annual return, $7000 of his equity cannot be excluded and counts as a resource under SSI policy..

Exceptions

If the property produces less than a 6% net annual return, the exclusion may be allowed only if the following apply; otherwise, none of the EV is excluded under this provision:

- Lower return that is beyond the individual's control, such as
  - Crop failure
  - Fire
  - Illness
- There is a reasonable expectation that the property will again produce a 6% return

Development When Rate of Return is Less than 6%

- If earnings decline for reasons beyond the client's control, up to 24 months is allowed for resumption of a 6% net annual rate of return. This 24-month period begins with the first day of the tax year following the one in which the rate dropped below 6%.

- Set a 12-month tickler to check on the individual's progress with the business. The individual can have the additional 12 months to achieve the 6% net annual rate of return if he is actively pursuing the activity.

- If the individual has stopped actively pursuing the activity, the value of the property counts as a resource the month following the review.

- If the property is still not producing at least a 6 percent net annual return at the end of the 24-month period, discontinue the exclusion. The value of the property counts as a resource the month following the month the 24-month period ends.

Non-Business, Income Producing Property (Continued)

Procedure – SSI Resource Policy
Multiple Properties If an individual owns more than one piece of property: • The 6% return rule applies individually to each piece • The $6000 equity value limit applies to the combined equity values of properties meeting the 6% return rule If all the properties meet the 6% test, but total EV exceeds $6000, that portion of the total in excess of $6000 is not excluded under this provision. **Example:** Mr. Green has a piece of land on which he grows corn for sale at market. The equity value of the land is $7000. 1. He nets $500 per year in sales. $500 ÷ $7000 = 7.14%; therefore, $6000 of the EV is excluded and $1000 counts as a resource. 2. Last year his crop was struck by lightning and caught on fire. He made no money, but expects to plant and sell again next year at the regular rate. The $6000 may still be excluded because Mr. Green had no control over the fire. His 24-month period begins January 1 of the tax year following the year in which the loss occurred. A tickler is set to check on his progress in 12 months. **Example:** Mr. Green owns three non-connected acres of pastureland. He rents them to different horse and cattle owners for $500 per year each. The land has equity values of $2000, $3500 and $1200 for a total of $6700. • 6% rule: $500 ÷ $2000 = 25% return $500 ÷ $3500 = 14% return $500 ÷ $1200 = 42% return • Since the 6% rule is met, $6000 is excluded and $700 is countable