
ASSETS FOR INDEPENDENCE PROGRAM

U.S. Department of Health and Human Services
Administration for Children and Families
Office of Community Services
Division of Community Demonstration Programs
330 C Street NW
Washington, D.C. 20201
<http://www.acf.hhs.gov/programs/ocs/programs/afi>

Information Memorandum 2017-01

Date: January 9, 2017

TO: All Assets for Independence (AFI) Grantees

SUBJECT: Clarification on Qualified Expenses for An Eligible Individual

RELATED

REFERENCES: Assets for Independence Act, 42 U.S.C. 604 note, as amended.

Purpose: The purpose of this Information Memorandum (IM) is to clarify what constitutes *qualified expenses for an eligible individual*.

Background:

Section 404(5)(A) of the Assets for Independence (AFI) Act defines *Individual Development Account* (IDA), identifying the primary purpose of an IDA to be “paying the qualified expenses of an eligible individual.” Section 410(d) further emphasizes that funds held in an AFI IDA are to be withdrawn primarily for qualified expenses. The term *qualified expenses* is defined in Section 404(8) of the AFI Act.

The specific definition of *postsecondary educational expenses* in Section 404(8)(A)(i) includes two parts:

- (I) TUITION AND FEES.--Tuition and fees required for the enrollment or attendance of a student at an eligible educational institution.
- (II) FEES, BOOKS, SUPPLIES, AND EQUIPMENT.--Fees, books, supplies, and equipment required for courses of instruction at an eligible educational institution.

The definition of *first-home purchase* in Section 404(8)(B) reads:

Qualified acquisition costs with respect to a principal residence for a qualified first-time homebuyer, if paid from individual development account directly to the persons to whom the amounts are due.

Section 404(8)(B)(iii)(I) defines *qualified first-time homebuyer* as follows:

- (I) IN GENERAL.--The term “qualified first-time homebuyer” means an individual participating in the project involved (and, if married, the individual's spouse) who has no present ownership interest in a principal residence during the 3-year period ending on the date of acquisition of the principal residence to which this subparagraph applies.

Finally, Section 404(8)(C) defines *qualified business capitalization expenses* and related terms:

- (i) QUALIFIED BUSINESS CAPITALIZATION EXPENSES.--The term ``qualified business capitalization expenses" means qualified expenditures for the capitalization of a qualified business pursuant to a qualified plan.
- (ii) QUALIFIED EXPENDITURES.--The term ``qualified expenditures" means expenditures included in a qualified plan, including capital, plant, equipment, working capital, and inventory expenses.
- (iii) QUALIFIED BUSINESS.--The term ``qualified business" means any business that does not contravene any law or public policy (as determined by the Secretary).
- (iv) QUALIFIED PLAN.--The term ``qualified plan" means a business plan, or a plan to use a business asset purchased, which—
 - (I) is approved by a financial institution, a microenterprise development organization, or a nonprofit loan fund having demonstrated fiduciary integrity;
 - (II) includes a description of services or goods to be sold, a marketing plan, and projected financial statements; and
 - (III) may require the eligible individual to obtain the assistance of an experienced entrepreneurial adviser.

Policy Summary:

An analysis of these three areas of qualified expenses under the AFI Act has found that only first-home purchase requires that the IDA holder is conducting activities that directly result in the expenses. For postsecondary educational expenses and qualified business capitalization expenses, the Office of Community Services (OCS) accepts that expenses resulting from the postsecondary or business capitalization activities of a child, dependent,¹ or spouse of an IDA holder can be considered as expenses of that IDA holder.

For example, Individual A may use their IDA deposits and match funds for the qualified postsecondary expenses incurred when Individual A's child, dependent, or spouse attends an eligible educational institution. Similarly, Individual B may use their IDA deposits and match funds for the qualified business capitalization expenses of a business owned by Individual B's child, dependent, or spouse. Neither of these scenarios require a transfer, nor do they require that the child, dependent, or spouse be an IDA holder. The expenses are considered to be Individual A and Individual B's expenses, as it is a common practice in the United States for parents to consider the postsecondary and/or business expenses of their children and dependents to be their own expenses and for expenses to be shared among spouses.

This policy clarification maintains the targeting of the AFI program to individuals and families with low incomes. Additionally, it does not change any statutory requirements under the AFI Act. AFI grantees are still required to ensure that all statutory requirements related to these qualified expenses are met, from the moment of eligibility determination for the IDA holder (subject to Section 408) through the approved withdrawal of funds (subject to Section 410). This includes ensuring postsecondary educational expenses are paid directly to an eligible educational institution, as defined in Section 404(A)(ii) and that qualified business capitalization expenses are limited to expenditures of a qualified business with a qualified plan.

AFI grantees are not required to allow IDA holders to use their IDA deposits and match funds for postsecondary educational expenses or qualified business capitalization expenses resulting from the activities of children, dependents, or spouses. OCS seeks to provide grantees with more clarity regarding

¹ As defined in Section 404 of the AFI Act.

what is allowable under the AFI Act, but grantees have authority to design their projects within the parameters of the statutory requirements.

All references to IDA in this document only refers to AFI-funded IDAs. IDAs that are not supported by AFI funding, such as those funded entirely by state or private funds, are not subject to AFI Act requirements.

Additional Information:

Technical assistance resources for the AFI program are available on the AFI Resource Center, online at <http://idaresources.acf.hhs.gov/>.

Please address inquiries to:

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