

CALENDAR YEAR 2026 PERMISSIVE DEDUCTIONS: PHA GUIDANCE

In the CY2026 Public Housing Operating Subsidy Grant Eligibility and processing Notice, Public Housing Authorities (PHAs), were instructed to insert the cumulative reduction in rent for the PHA's fiscal year used to determine Formula Income as a negative number in Form HUD-52723 Section 3, Part C, Line 3 Other. Some PHAs did not make this insertion, resulting in an error in their submissions. Thus, HUD will make adjustments to the rent calculations for PHAs that did not follow this instruction, pursuant to 24 CFR § 990.200(c)¹.

The change is intended to ensure that reductions in tenant rental revenue resulting from permissive deductions do not result in an increase in Operating Fund formula funding, consistent with requirements established under the Housing Opportunity Through Modernization Act of 2016 HOTMA, as implemented through the Final Rule (88 FR 9600) on February 14, 2023, 24 CR §5.611, Notices PIH 2023-27 & PIH 2025-22, and any other applicable HUD guidance.

This change **does not** prohibit PHAs from adopting permissive deductions. Rather it addresses the manner in which the financial impact of those deductions is reflected in the Operating Fund formula.

PHAs may continue to establish permissive deductions consistent with 24 CFR §5.611 and applicable HUD requirements. However, reductions on rental revenue resulting from permissive deductions may not result in increased Operating Fund formula funding.

The Public Housing Financial Management Division will be making the corrections into the applicable Operating Fund subsidy forms during the period October 22-30, 2026:

1. Identifying PHAs that have adopted permissive deductions;
2. Determining the amount of rental revenue reduced as a result of those reductions;
3. Determine the appropriate Formula Income adjustment; and

¹ PHAs shall submit data used in the formula on a regular and timely basis to ensure accurate calculation under the formula. If a PHA fails to provide accurate data, HUD will make a determination as to the PHA's inventory, occupancy, and financial information using available or verified data, which may result in a lower operating subsidy. HUD has the right to adjust any or all formula amounts based on clerical, mathematical, and information system errors that affect any of the data elements used in the calculation of the formula.

4. Apply the correction to the applicable Form HUD-52723;

Inside the Public Housing Portal, there will be a Permissive Deductions module where affected PHAs can view their respective deduction and the corresponding correction to the Formula Income and Operating Subsidy.

Please note: Corrections to Formula Income will be imported into the Public Housing Portal via a bulk upload for CY 2026. The Portal will generate an email to notify PHAs when such changes are made.

Information regarding this change will be posted to the Operating Fund webpage. PHAs should reach out directly to their Field Offices with questions or concerns.