



Verification: Beyond the Basics
SASFAA
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Session Goals

- To review Verification basics
- To discuss Verification concepts beyond the basics
- To introduce changes for 2009-10
- To introduce some best practices
- To answer your questions




Verification Basics

- Schools must have written policies and procedures on deadlines, notifications and corrections.
- A Verification Worksheet is not required, but it is the easiest way to collect the information.
- Schools can use ED's worksheets, or can develop their own Verification Worksheets.




Verification Basics

- Schools must verify all students who are selected (can stop at 30% of applicants) unless they are ineligible for any federal aid except Unsubsidized Stafford or PLUS.
 - Schools can select their own students (but they cannot count in the 30% if using limitation option).
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Items to be Verified

- Number in household
 - Number in college
 - Adjusted Gross Income
 - U. S. taxes paid
 - Certain types of untaxed income and benefits:
 - Child support, deferred compensation, and all untaxed income which can be obtained on a federal income tax return
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Number in Household

- For a dependent student:
- Student
 - Parents – If divorced, the parent with whom the student lived more during the past 12 months (if neither, the parent from whom student received the most financial support when last given)
 - Include stepparent if divorced parent has remarried
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Number in Household

For a dependent student (cont.):


- Parents' other dependent children – if they receive more than half their support from parents OR if they would be considered dependent on a FAFSA
 - Other persons – if they live with AND receive more than half their support from parents for the entire award year
 - Do not include foster children
 - Cannot use grandparents, aunts/uncles, legal guardians as "parents"
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Number in Household

For an independent student:

- Student
 - Spouse
 - Student's children – if they receive more than half their support from student
 - Other persons – if they live with AND receive more than half their support from student the entire award year
 - Do not include foster children
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Number in College

- Include student
 - Do not include parents
 - Include other family members who
 - are attending at least half time AND
 - are degree-seeking AND
 - their school is eligible for federal financial aid
 - Do not include U.S. military academies
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AGI and Taxes Paid

- Make sure you collect all returns.
 - Check for appropriate signatures.
 - If tax filers are now separated, determine how your office will calculate individual AGI from joint returns (recalculated versus proportional).
 - Can use tax extension with W-2 forms; must have follow-up policy to re-verify.
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Tax Form Issues

"FAAs must have a fundamental understanding of relevant tax issues that can considerably affect the need analysis. [FAAs] are obligated to know:

- whether a person was **required to file** a tax return,
- what the **correct filing status** for a person should be, and
- that an individual cannot be claimed as an **exemption** by more than one person."

2008-09 AVG-101




Filing Requirements

Who has to file?

- SINGLE (Claims self) Gross income \$8,950
- MARRIED (Joint) Gross income \$17,900
- SINGLE (Dependent) Earned income \$5,450
or investment income \$900

Based on 2008 – Updated annually



Filing Requirements

This is important for Simplified EFC Formula and Automatic Zero EFC.

- 1040EZ or 1040A – Short forms
- 1040 – Long form

The long form is required if *taxable* income is more than \$100,000; deductions are itemized; or there are certain types of income such as business or alimony.

<http://www.oasfaaok.com/inside/archive.php>



Filing Status

Which filing status can be used?

Tax filers must determine their marital status as of the last day of the year.

- SINGLE
 - MARRIED FILING JOINTLY
 - MARRIED FILING SEPARATELY
 - HEAD OF HOUSEHOLD
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Exemptions

Who can be claimed as a dependent?

The following tests must be met:

- The dependent must be a relative or live in household for the entire year.
 - The income of certain dependents cannot exceed \$3,500.
 - More than half support must be provided by tax filer.
 - An individual cannot be claimed as an exemption by more than one person (including self).
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Signature Requirements

- Form 1040, 1040A or 1040EZ signed by at least one filer
- E-file* printouts (not Form 8453 or 8879) signed by at least one filer
- A return on which the tax preparer has stamped, typed, signed, or printed his/her name (not company name) and his/her SSN, EIN or PTIN




Income Earned from Work

- This is not a required Verification item, but because it is found on the tax return, it is conflicting data if not corrected.
- Use positive values only; do not reduce salary (1040 line 7) by business (1040 line 12) or farm (1040 line 18) losses.
- This is important to calculate the Social Security tax in the EFC formula.



Untaxed Income on Tax Return

- IRA and Keogh deductions
- Tax exempt interest
- IRA distributions
- Pensions
 - *New* For 2009-10 – Do Not Count:
 - Earned Income Credit
 - Additional Child Tax Credit
 - Foreign Income Exclusions
 - Credit for Fuel Tax for non-farmers
 - Nontaxable combat pay (*reported for EIC*)




Untaxed Income Not on Tax Return

Some of these are not required Verification items, but conflicting data must be resolved.

- Child support received*
- Housing allowances for clergy or military
- Non-educational VA benefits (DIC)
- Worker's Compensation
- Payments to tax-deferred pensions and savings plans (401K, 403B, etc.) – Ask for W-2 and see Box 12, Codes D,E,F,G,H,S, or Box 5 minus Box 1 – *elective contributions only*
- Cash support (*student only*)


*Verification Required



Untaxed Income Not on Tax Return


New For 2009-10 – Do Not Count:

- Combat pay
- Welfare benefits (TANF)
- Untaxed Social Security Benefits



Not Counted as Untaxed Income


- Food stamps
- Subsidized housing
- Foster Care payments
- Flexible Spending Accounts (medical or daycare "cafeteria plans")
- Non-elective pension contributions (such as state retirement system)
- Educational VA Benefits (counted as resource instead; to be eliminated in 2010-11)



Additional Financial Information (formerly Income Exclusions)


These are not required Verification items, but because they affect the AGI, they are conflicting data if not corrected.

- Education Tax Credits from tax return
- Taxable earnings from FWS
- Taxable grant and scholarship aid
- Child support paid
New for 2009-10
- Taxable combat pay



Additional Financial Information (formerly Income Exclusions)

- Do not count grant and scholarship aid UNLESS it was reported on tax return.
 - Students do not have to report grants and scholarships on tax return unless aid exceeds tuition, required fees, books and supplies.
 - Reported on the wages/salary line with "SCH."
- Do not count child support paid for a child included in the number in household.
- Do not include untaxed combat pay (Code Q in Box 12 on W-2).



Correcting, Updating and Adjusting

- Applicants and FAAs must **correct** data that was *wrong* at the time of filing the FAFSA.
- Applicants and FAAs must **update** the following data if it has *changed* since the FAFSA was filed:
 - Number in household and college *if* selected for Verification and the change is not due to student's marital status
 - Dependency status *if* change is not due to student's marital status
- FAAs can **adjust** data through the use of Professional Judgment (PJ).



Examples of Best Practices

- Questioning differences in “self-reported” answers on FAFSA vs. Verification Worksheet
 - Define your policy on conflicting information
 - Determine method to resolve conflicts (phone call, clarification form, etc.)

 - Questioning zero or low incomes
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Examples of Best Practices

- Questioning assets based on interest, dividends, or rental income on tax return
 - Pay attention to Asset Protection Allowance (APA) before questioning
 - To estimate the value of an investment, multiply interest by 10 for a 10% return; multiply by 20 for 5%

 - Questioning business value based on business income on tax return
 - Remember businesses with fewer than 100 employees are not counted
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Examples of Best Practices

- Questioning dependency status for independent-due-to-child student if income is too low to reasonably support a dependent
 - Note that the Income Protection Allowance (IPA) for 2009-10 is \$7,000 for a family of one and \$15,840 for a family of two

 - Questioning separated parents who file married-filing-jointly tax returns for multiple years
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Examples of Best Practices

- Questioning independent status and requiring documentation
 - Ward of Court
 - *New* for 2009-10
 - Foster Care
 - Emancipated Minor
 - Legal Guardianship
 - Homeless



Case Study 1

Jennifer's parents are divorced. Jennifer's father provides more than half of her support and claims her as a dependent on his taxes. Jennifer lives with her mother and stepfather. Her stepfather provides no support.

Question: Which parent(s) should Jennifer include on her FAFSA?



Case Study 1

Answer: Mother and stepfather

- In the case of divorced parents, use the parent with whom Jennifer has lived with more during the past 12 months.
- Because Jennifer's mother has remarried, the stepfather must be included.
- Child support paid by her father would be counted as untaxed income for Jennifer's mother.



Case Study 2

Jennifer (from Case Study 1) has a stepsister, Melissa, who lives with Jennifer's father and Melissa's mother. Melissa is also attending college.

Question: When Melissa completes her FAFSA, does she include Jennifer in her household?



Case Study 2

Answer: Yes.

- Jennifer's father is paying more than half of Jennifer's support, so he can include her in Melissa's household size.
 - He cannot count the child support he pays to Jennifer's mother as Additional Financial Information (income exclusions).
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Case Study 3

Justin's parents are listed as married on his FAFSA. Both parents submit tax returns filed as Head of Household.

Question: Can you accept the tax returns?



Case Study 3

Answer: Highly unlikely.

- If Justin's parents were legally separated as of the last day of the calendar year AND living apart for the last six months of the year, they can both file Head of Household.
 - They each had to pay more than half the cost of keeping a home for the year.
 - They cannot use the same child(ren) to claim Head of Household.
 - They must have reconciled.
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Case Study 4

Ellen is a 20-year-old undergraduate who lives with her child. Her boyfriend, Matt, pays her child support that covers more than half of her child's support.

Question: What is Ellen's dependency status and what is the number in her household?



Case Study 4

Answer: Independent with two in household

- Ellen can count money she receives from sources other than her parents as her support of her child.
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Case Study 5

Matt (Ellen's boyfriend from Case Study 4) is also attending college. He is a 21-year-old undergraduate.

Question: What is Matt's dependency status and what is the number in his household?



Case Study 5

Answer: Independent with two in household

- Matt is providing more than half support for his child, so he is considered independent and can count the child in his household size.
 - The child can be included in both households.
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Case Study 6

Gail qualifies for the Simplified EFC Formula because someone in her household received TANF. Gail's household includes two parents and one sibling. Gail does not report any untaxed income on her FAFSA.

Question: Do you have conflicting data?



Case Study 6

Answer: Yes for 2008-09; No for 2009-10

- Because there are no family members who could be receiving the TANF in his/her own name that would not be counted as untaxed income (such as a grandparent), this situation would be conflicting data in 2008-09.

- This will not be conflicting data in 2009-10 because:
 - The means-tested federal benefits are now for the past two years, and
 - TANF and SSI are no longer counted as untaxed income.



Case Study 7

Jeff is a dependent student with married parents. He has 22-year-old unmarried brother, Kim, who works and lives independently in another state. Kim is not in the military and has no children.

Question: What is the Jeff's number in household?



Case Study 7

Answer: Four

- Because Kim cannot answer "YES" to any question in Step Three of the FAFSA (graduate school, married, dependents, active duty, veteran, etc.), he is counted in the household.
- Support or living arrangements are not considered for siblings who are not independent according to the FAFSA.
- Kim does not have to actually file the FAFSA.



Case Study 8

Yvette filed the FAFSA when her mother was single/divorced. Yvette was selected for Verification. When she submits her Verification documents, Yvette's mother is now remarried.

Question: How do you treat Yvette's stepfather during Verification?



Case Study 8

*Answer: Count the stepfather, but not his income.**

- The number in household is an updatable item because Yvette is selected for Verification, and the change is not due to the student's marital status.
 - Due to the wording of the federal regulations, updating the income is not allowed as part of Verification.
 - * However, you can include Yvette's stepfather's income through the use of Professional Judgment.
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Case Study 9

Sommer's biological parents' rights have been terminated and she has lived with her grandparents since the age of 15. The court appointed her grandparents as her legal guardians.

Question: How does Sommer complete her FAFSA?



Case Study 9

Answer: Sommer is independent with one in her household.

- *New* for 2009-10 – Because Sommer is in legal guardianship, she is considered independent.
- The guardianship must be legal (court appointed).
- Per 11/20/08 NASFAA Webinar, you are not required to document; however, as a best practice, you may ask for a copy of the court's decision.
- Support from guardians should be reported as untaxed income.



Case Study 10

- Amy qualified for the Automatic Zero EFC because she indicated her parents are eligible to file a 1040A and their income is \$30,000. For Verification, Amy's parents submit a tax return with business income. All required Verification items are correct.

Question: Do you have to file a correction?



Case Study 10

Yes.

- Amy's parents are required to file a long form (1040) because they had business income.
- Amy is not eligible for the Automatic Zero EFC if her parents were not eligible to file a short form (and do not meet other tests).



Essential Resources

- Current year Application and Verification Guide (AVG) from Federal Student Aid Handbook (www.ifap.ed.gov)

 - IRS Publication 17 (www.irs.gov)

 - Set of current federal tax forms (1040, 1040A, 1040EZ) and tax tables
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