

FAFSA TIPS

Tax information:

Parents and Students—If possible, use the IRS DATA RETRIEVAL on the online FAFSA. This will automatically pull all of the required information for the FAFSA except the actual earnings lines. By using the IRS DATA RETRIEVAL, you lessen the chance of being selected for verification, a process where you have to provide documentation for the information on the FAFSA. HINT—be sure to complete the parent earnings, especially if you have two parents working. If you are not using the IRS DRT, follow the FAFSA directions to be sure you are pulling the correct line from your tax return.

- Parents who have filed a joint return but are now separated or divorced or widowed when the FAFSA is completed should calculate how much of the income and taxes paid was attributable to them and not the spouse.
 - Remember, dependents who earn more than \$6,200 must file.
- If the parent or student was not required to file a return, any income earned must still be reported. Use the W-2 forms to calculate those earnings.
 - Do not include combat pay (unless it was taxable) in the earnings. Because combat pay is not counted as untaxed income and is removed from the AGI when it is taxable, it should not be included in the income earned from work.

AGI worksheet for those who have not completed a tax return		
<i>Use this worksheet to estimate adjusted gross income (AGI) if you have not completed a tax return.</i>	<i>For Question 36 Student/Spouse</i>	<i>For Question 85 Parents</i>
Wages, salaries, tips, etc.	\$ _____ .00	\$ _____ .00
Interest income	+ _____ .00	+ _____ .00
Dividends	+ _____ .00	+ _____ .00
Other taxable income (alimony received, business and farm income, capital gains, pensions, annuities, rents, unemployment compensation, Social Security, Railroad Retirement, and all other taxable income)	+ _____ .00	+ _____ .00
Add all of the numbers in the column.	= _____ .00	= _____ .00
Subtract IRS-allowable adjustments to income (payments to IRA and Keogh plans, one-half of the self-employment tax, the self-employed health insurance deduction, the interest penalty on early withdrawal of savings, and alimony paid).	- _____ .00	- _____ .00
Total—write this amount in Question 36 or 85.	\$ _____ .00	\$ _____ .00

- If the parents are married, or unmarried but living together, and file separate returns, both incomes and taxes paid, plus other items required, must be added together and reported. HINT—be absolutely sure you are filing the correct IRS return. If parents are

married and living together, they must file as Married, filing separately OR Married, filing jointly.

Other Income that must be reported:

- Child support received—parent must include all child support received for ALL children in the household.
- Child support paid out—if one parent is paying out child support to another person, the total amount actually **paid** must be reported. This amount is actually deducted from the income.
- Payments to tax deferred pensions or savings plans, including payments to a 401K or 403B plan. These payments are found on the W-2 form in box 12 (A-D) codes D, E, F, G or H.
- Deductible IRA and Keogh payments to an IRA or Keogh plan are not taxed, but must be reported as untaxed income. They will show on your tax return.
- Some types of tax exempt interest on municipal bonds must be reported. This amount will show on line 8b on the 1040.
- Untaxed IRA distributions and pension and annuity payments must be reported as untaxed income. This also shows on the 1040.
- Clergy and military personnel must report housing, food, and living allowances that are received as part of the compensation for their jobs. Money received to subsidize food, such as the military BAS allowance, must also be reported as untaxed income.
- Veterans' noneducational benefits such as disability, Dependency and Indemnity Compensation, and VA work study.
- Other untaxed income, such as disability (not Social Security disability), worker's compensation, tax-free contributions to HSAs, interest income on educational IRAs, untaxed portions of Railroad Retirement benefits, black lung benefits, refugee assistance, the untaxed portion of capital gains, and foreign income that is not part of the Foreign Earned Income Exclusion, must be reported as untaxed income.
- Money received for cash support, housing, food, etc. must also be reported as untaxed income.

Income and Benefits NOT reported:

- Student aid received in the prior year is reported in the *Additional Financial Information* section, but not included in the calculation.
- FWS earnings from the prior year are included in the student's AGI, but are also reported in the *Additional Financial Information* and not included in the calculation.
- Veterans' educational benefits are not reported.

- The value of on-base military housing or the amount of BAH (military housing allowance for off base housing) is not reported.
- Rent subsidies for low income housing are not reported. Heating and fuel assistance is also not reported.
- Payments received from state foster care programs or adoption assistance are not reported.
- Flexible spending accounts are not reported.
- Welfare benefits, untaxed social security benefits, earned income and child tax credits are not reported.
- Combat pay and foreign income are not included in the formula, but are reported in the *Additional Financial Information* section.
- In-kind support other than money is not included. For example, if a student lives with someone rent-free, that is not included as untaxed income. However, if that person is paying the cost for the student, it is counted.

Two situations where assets are NOT reported or counted in the calculation of the EFC:

- Students who qualify for the Automatic Zero EFC
 - Parents income is less than \$25,000 (AGI), AND
 - Anyone included in the parents' household size (as defined on the FAFSA) received any of the designated means-tested federal benefit programs (SSI, SNAP, Free and Reduced Price School Lunch Program, TANF, or WIC), OR
 - The student's parent is a dislocated worker.
- Students who qualify for the Simplified EFC Formula
 - Parents income is less than \$50,000 (AGI), AND
 - Anyone included in the parents' household size (as defined on the FAFSA) received any of the designated means-tested federal benefit programs (SSI, SNAP, Free and Reduced Price School Lunch Program, TANF, or WIC), OR
 - The student's parent is a dislocated worker.

Otherwise, the following assets must be reported on the FAFSA:

- Qualified Education Benefits (529 plans and Coverdell education savings accounts) are an asset of the owner except when the student is a dependent student, in which case they become the asset of the parent. If the grandparent owns the plan, distributions from these plans to the student count as untaxed income to the student.
- Trust funds are reported as an asset, even if the owner's access to the fund is restricted. However, if the trust is restricted by a court order, it is not reported as an asset. An

example of a court ordered trust is one set up by court order to pay for future surgery for the victim of a car accident. Interest from a trust is also reported as income.

- Other assets include cash, savings, investments, businesses, mutual funds, rental properties, summer homes, money market funds, UGMA and UTMA accounts, CDs, stocks and stock options, bonds, etc.
 - However, the following are excluded assets:
 - The family's principal place of residence
 - The family farm if it is the principal place of residence for the family and the parents materially participate in the farming operation
 - Family-owned and controlled small businesses (which can include a business farm) that have fewer than 100 full-time for FTE employees
 - Retirement plans and whole life insurance—The value of retirement plans is not counted as an asset, but the distributions do count as income. Likewise, the cash value or equity of a whole life insurance policy isn't reported as an asset, but an insurance settlement does count as income.

How the Needs Analysis Formula works:

So, how are assets and income handled in determining the students EFC? First, each year, Congress approves, and the Department of Education publishes the EFC calculation formula each year. This changes each year, and is usually driven by the federal budget for aid. The formula for 2016-2017 can be found at <http://ifap.ed.gov/efcformulaguide/attachments/100615EFCFormulaGuide1617Attach.pdf>.

- Income Protection Allowance. This allowance in the formula will calculate a portion of the parental income that should be protected and not used in the calculation of the EFC. For example, a family of 4, with one in college, will have the first \$27,440 protected. The amount protected goes up with larger families or more students in the family attending college.
- Parents' Education Savings and Asset Protection Allowance. This allowance protects a portion of the parents' savings and assets. For example, for a two parent family with the oldest parent at age 48, the first \$18,700 of the total assets are protected. This gives us the Discretionary Net Worth of which only 12% is used to determine the student's EFC.
- For student's savings, there is no asset protection allowance, and 29% of the student's savings are counted in the EFC.