Verification in the Financial Aid Office

[Current as of 12/1/2010]

What Will we Accomplish Today?

- Define verification and its scope
- Identify what data elements must be verified
- Discuss how to verify those data elements
- Final rules—effective July 1, 2012
Purpose and scope of verification

Purpose

- To ensure information on FAFSA (and resulting EFC) is correct
- To maintain integrity of the financial aid system
Verification is Not...

• Resolving conflicting information
• Professional judgment
• Confirming database matches
• Reviewing reject codes and C-codes

Verification is...

• Reviewing the following items on a student’s FAFSA to ensure correct and complete information:
  – Household size
  – Number in college
  – Untaxed income and benefits
  – Parent and student Adjusted Gross Income (AGI)
  – Parent and student taxes paid

AVG 85
ED Selection

- Student fills out FAFSA
- CPS reviews and flags application
- School notified on ISIR transaction

AVG 82

The 30 Percent Rule

- **Must** verify all applications the CPS selects for verification, up to 30% of total federal aid applicants
  - If the CPS selects less than 30%, the school is not required to reach 30%; it is not a quota
- **May** choose to verify more than 30%

AVG 82
School Selection

- **Must** select any application that it has reason to believe is incorrect or discrepant
- **May** also select additional applications for verification beyond those required
- “Full verification” not required
- School-selected files and those with conflicting information do not count toward the 30% requirement

Exemptions

- Certain aid applicants are exempt from verification, including applicants who are:
  - Incarcerated students
  - Recent immigrants
  - Applying for parent or Grad PLUS, unsubsidized Stafford, LEAP/SLEAP, TEACH Grant, or Robert C. Byrd only
  - Not aid recipients

AVG 82-84
Other Exempted Applicants

• Unable to locate parent(s) or spouse
• HEROES Act
• Disaster victims
• Pacific Island resident
• Verified by another school
• Exemptions within verification categories

AVG 83-84

Documentation

• Most verification information can be collected on the verification worksheet and tax forms
  – Tax filers must submit copies of tax return, and in some cases, W-2s
• May require additional documentation for certain items
• Copies are acceptable

AVG 85-86
Who is Included in the Household?

- **Dependent Student:**
  - Student
  - Student’s parent(s)
  - Student’s siblings and children
  - Others who receive more than 50% support

- **Independent student:**
  - Student
  - Student’s spouse
  - Student’s children
  - Others who receive more than 50% support

AVG 32, 36
Household Size Exemptions

• You don’t have to verify the number in the household if any of the following conditions apply:
  – It’s the same as reported and verified in the previous award year
  – You receive the student’s ISIR or SAR within 90 days after the date the application was signed

Household Size Exemptions

• You don’t have to verify the number in the household if any of the following conditions apply:
  – For a dependent student, the household size reported for married parents is three—or two if the parent is single, divorced, separated, or widowed
  – For a married independent student the household size reported is two—or one if the student is single, divorced, separated, or widowed
Remember:

- The rules that determine whether someone is counted in the household for FSA purposes are different from the IRS rules for determining dependents or household members.

AVG 33

Updating household size

- Must be updated to be correct at the time of verification unless they changed due to a change in the student’s marital status, in which case updating is not permitted.
Household Size Pop Quiz

- How many are in the household for verification purposes?
  - Lydia is dependent
  - Parents are married
  - Ron is independent by age, but parents provide more than 50% support
  - Elizabeth is independent by vet status, and not supported by parents
  - Susan is dependent, does not attend college, but is working and supports herself.

Household Size Pop Quiz

- Jessica’s parents are living together but are separated or never married. Should both parents be included in the HHS?
Household Size Pop Quiz

- Stephanie lives at home with her parents and her dependent child. Is Stephanie independent for federal student aid purposes?

Number in college

TG can help.
Who is Included in the Number in College?

• Dependent student:
  — Student
  — Others in the HHS if they are or will be enrolled at least 1/2 time during the award year in an eligible degree or certificate program at a school eligible for any of the FSA programs.
  — Not parents

• Independent student:
  — Student
  — Others in the HHS who are or will be enrolled at least 1/2 time during the award year in a degree or certificate program at a Title IV-eligible school and who can reasonably be expected to receive aid from the family for their education

Number in College Exemptions

• You don’t have to verify the number enrolled in college if any of the following conditions apply:
  — The reported number enrolled is one (the student only).
  — You receive the student’s ISIR or SAR within 90 days after the date the application was signed.
  — The family members the student lists are enrolled at least half time at your school, and you have confirmed their enrollment through your school’s own records.
Updating Number in College

- As with household size, number in college cannot be updated unless the student is selected for verification. If he is selected, these items must be updated to be correct at the time of verification unless they changed due to a change in the student’s marital status, in which case updating is not permitted.

Number in College Pop Quiz

- Ryan is dependent, his parents are divorced, and he lives with his mom and 30-year-old sister. Ryan’s mom decides to attend graduate school part time next year. His sister is enrolled full time in an associate’s degree program and works full-time. How many people are in Ryan’s number in college?
Untaxed income and benefits

What Must be Verified

• Child support received
• Deductions for IRA and Keogh plans
• Tax exempt interest income

AVG 90
What Must be Verified

- All other untaxed income reported on the U.S. individual income tax return, including:
  - Payments to tax-deferred pension/savings
  - Untaxed portions of pensions and annuities/IRA distributions

AVG 21

Other Untaxed Income and Benefits Not on the Tax Return

- Housing, food, and other allowances
- Veterans’ non-education benefits
- Other untaxed income not reported elsewhere, such as workers’ compensation or disability payments
- Cash support (but not cash from parents for dependent student)

AVG 91-92
Don’t Include:

- Welfare payments
- Earned Income Credit
- Foreign income exclusion
- Credit for tax on special fuels
- Additional child tax credit
- Untaxed Social Security benefits (such as SSI)
- Student aid
- Veterans’ education benefits

AVG 22, 23

In-kind vs. Cash Support

- **In-kind**: support other than money, such as free housing or food provided by friends or relatives, food stamps, WIC, national school lunch and breakfast programs, rollover pensions. May be included elsewhere when determining aid eligibility.

AVG 23
In-kind vs. Cash Support

- **Cash**: money, clothing, gifts, food, loans, housing, car payments or expenses, medical and dental care, costs paid on the student’s behalf, and money from a non-custodial parent to a dependent student that is not part of a child support agreement.

AVG 22

AGI and taxes paid
"The hardest thing in the world to understand is the income tax."

– Albert Einstein

Signature Requirements

- At least one parent must sign the parent tax return
- Student must sign his or her tax return
  OR
- Tax preparer may sign or stamp name in lieu of filer (also need SSN or EIN)
- Exception: if the form mailed is directly to the school from IRS

AVG 37
Alternative Tax Documentation

- e-file
- Transcript of return (RTFTP, or Return Transcript for Tax Payer): Form 4506-T or call IRS at (800) 829-1040
- Extension filers:
  - Form 4868
  - W-2s
  - Final tax return

AVG 88-89
What You Must Know About Filing Requirements

- Is an individual required to file?
- What is the individual’s correct filing status?
- Confirm an individual is not claimed as an exemption by more than one person
- Download IRS publication 501 (short version) or 17 (long version)

Table 1. 2009 Filing Requirements Chart for Most Taxpayers

<table>
<thead>
<tr>
<th>IF your filing status is...</th>
<th>AND at the end of 2009 you were...</th>
<th>THEN file a return if your gross income was at least...</th>
</tr>
</thead>
<tbody>
<tr>
<td>single</td>
<td>under 65</td>
<td>$ 9,350</td>
</tr>
<tr>
<td></td>
<td>65 or older</td>
<td>$10,750</td>
</tr>
<tr>
<td>head of household</td>
<td>under 65</td>
<td>$12,000</td>
</tr>
<tr>
<td></td>
<td>65 or older</td>
<td>$13,400</td>
</tr>
<tr>
<td>married, filing jointly**</td>
<td>under 65 (both spouses)</td>
<td>$18,700</td>
</tr>
<tr>
<td></td>
<td>65 or older (one spouse)</td>
<td>$19,800</td>
</tr>
<tr>
<td></td>
<td>65 or older (both spouses)</td>
<td>$20,900</td>
</tr>
<tr>
<td>married, filing separately</td>
<td>any age</td>
<td>$ 3,650</td>
</tr>
<tr>
<td>qualifying widow(er) with dependent child</td>
<td>under 65</td>
<td>$15,050</td>
</tr>
<tr>
<td></td>
<td>65 or older</td>
<td>$16,150</td>
</tr>
</tbody>
</table>
Non-filers

- Income earned from work on FAFSA (no AGI)
- Verification worksheet or signed statement sufficient, but...
- Be vigilant about conflicting information

AVG 88

Filed Joint Return, Now Separated

- Obtain all W-2s and extract income
- Figure individual taxes paid
- Assess at 50%:
  - Interest/business income on joint accounts
  - Business/farm losses
  - Adjustments to AGI that were for both filers

AVG 86
Resolution

- Compare documents with original FAFSA
- Determine if information is correct
  - No changes or minor changes: award and disburse aid
  - Errors/inconsistencies: submit corrections/updates

AVG 88
Final rules—Program Integrity Verification: Effective July 1, 2012

Verification

• Discontinues use of five standardized verification items
• Customizes verification based on most error-prone data items *specific to applicant*
• Requires ED to publish *Federal Register* Notice each award year listing:
  – Potential verification items, and
  – Acceptable documentation

§ 668.56
Verification

• Schools must verify *all* CPS-selected applicants
  – 30% cap on verification of applicants eliminated
  – Schools must verify all selected applicants unless verification exclusions apply
  – Schools must complete verification prior to performing professional judgment (PJ)

§§668.53-668.54

Verification

• Identifies required verification items on SAR/ISIR
  – New flags specific to the applicant
• Allows school flexibility to verify additional items for specific applicant
• Continues to require school to resolve conflicting information
Verification

- No longer excluded from verification
  - Legal residents of Commonwealth of Northern Mariana Islands, Guam and American Samoa
  - Citizens of Republic of Marshall Islands, Federated States of Micronesia and Republic of Palau
  - Incarcerated applicants
  - Recent immigrants
  - Parents who are deceased
  - Parents or spouses who are physically incapacitated

Verification

- Excluded from verification:
  - Applicant dies, does not receive aid, or receives only unsubsidized aid
  - Transfer student if prior school completed verification
  - Parent or spouse resides outside U.S. and cannot be contacted
  - Parents (both) or spouse mentally incapacitated
  - Parents or spouse cannot be located

§ 668.54
Verification

- **Must** update FAFSA information if:
  - Household size and/or number in college changed at the time of verification
  - Dependency status changes during the award year
    - Regardless of verification selection
    - Applicant responsible for notifying school of change
    - If school becomes aware of change, consider as conflicting information

§§ 668.55; 668.58

Verification

- **May** update FAFSA information if:
  - Dependency status changes during the award year due to a change in applicant’s marital status
    - Policy option at school’s discretion
    - May establish cut-off date for making change

§§ 668.55; 668.58
Verification

- **Documentation:**
  - Verification of AGI, income earned from work, and taxes paid
    - Tax return or tax transcript
      - Signature of at least one filer
      - Do not need original signature
    - Numbers obtained via IRS Data Retrieval
    - Applicant not required to file tax return
      - Signed statement listing income or W-2s

§ 668.57

Verification

- **Documentation:**
  - Unable to obtain tax return
    - Copies of W-2s
    - Self-certified statement of AGI
  - IRS grants 6-month tax filing extension
    - No requirement to obtain copy once filed
    - However, if school requires copy once filed, it MUST re-verify AGI and taxes paid

§ 668.57
Verification

• Documentation:
  – School can accept tax returns signed by tax preparer (instead of tax filer)
    • Signature or stamp
    • Preparer name and address and
      – Social Security Number or
      – Employer Identification Number or
      – Preparer Tax Identification Number

§ 668.57

Verification

• Tolerances
  – Any changes to eligibility for “subsidized student financial assistance” must be submitted to CPS
  – $25 tolerance (rather than $400 tolerance)
    • Non-dollar tolerances eliminated
  – Pell Grant eligibility must be recalculated and the award paid based on the revised EFC

§ 668.59
Helpful Resources

- AVG (download FSA Handbook from www.tgslc.org; Schools; Policies and Regulations)
- IRS publication 17 or 501 (www.irs.gov)
- NASFAA’s “Using Federal Tax Returns in Need Analysis” (www.nasfaa.org)

Helpful Resources

- ED resources: ISIR Analysis tool, Verification tool, FSA Assessments
- Final rules—Program Integrity
- TG’s Policy Page on Program Integrity
  - www.tgslc.org/policy/integrity-rules.cfm
Questions?

Call (800) 845-6267, contact cust.assist@tgslc.org, or visit Ask TG™ at tg.custhelp.com