



# Advanced Verification

## Presenters:

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NASFAA (2018) Verification: 2019-20 [Presentation]. Retrieved from <https://www.nasfaa.org>  
OASFAA (2018) Financial Aid Updates [Presentation]. Retrieved from: <https://www.oasfaa.org>

# We Are All Super Heroes

## 2019 PASFAA Spring Training

# Topics

- Data elements subject to verification for 2019-20 award year
- 2019-20 documentation requirements
- Clarifications and recent guidance from ED
- Verification issues that present challenges to institutions



# Poll—Your Verification Policies

What is your school's verification policy?

- We only verify aid applicants and data elements selected by the Central Processing System (CPS)
- We verify all CPS-selected aid applicants plus other applicants and data elements we specify in our institutional verification policies and procedures
- We verify all aid applicants (100%)



# 2019-20 Verification Requirements

- Data elements and documentation set annually
- No changes to verification process from 2018-2019
- March 28, 2018 Federal Register—*Free Application for Federal Student Aid Information to be Verified for the 2019-2020 Award Year*
- Dear Colleague Letter GEN-18-03—*2019-2020 Award Year: FAFSA® Information to be Verified and Acceptable Documentation*
- June 8, 2018 Electronic Announcement—*2019- 2020 Verification Suggested Text Package*



# V1 + V4 = V5

- Schools still have authority to select additional students and items for verification
- No longer required to verify Supplemental Nutrition Assistance Program (SNAP) benefits
- Child support PAID
- No longer required to verify exceptionally low income unless:
  - **It is your institutional verification policy**
  - **Conflicting information. Per ED, low income by itself is not conflicting**



# Verification Documentation

- IRS Data Retrieval Tool (IRS DRT) data elements already verified if IRS Request Flag is “02”
- If no “02,” Tax Return Transcript or acceptable alternative transcript is required
  - **Extremely limited exceptions exist**



# No Record of Return at IRS

- Require student (independent) or parent (dependent) to try another method to request the tax transcript (e.g., 4506-T)
- For 2018-2019 and 2019-2020 Verification Requirements institutions may accept a signed copy of the 2016 or 2017 income tax return, as applicable, that the tax filer submitted to the IRS.
  - *January 9, 2019 Electronic Announcement - Changes to 2018-2019 and 2019-2020 Verification Requirements*



# Filers of Joint Returns Who Are No Longer Married

- Dependents students' parents filed a joint return and have separated, divorced or widowed, student must submit:
  - IRS Tax Transcripts and
  - Copy of each W-2 form for parent whose tax information is on FAFSA
- Independent students who filed a joint return and is separated, divorced or widowed, must submit:
  - IRS Tax Transcripts and
  - Copy of each his/her W-2 form



# Nontax Filers—Verification of Nonfiling

- Based on dependency status
- Only required if selected for verification
- IRS Verification of Nonfiling (VNF) is required:
  - For a dependent student: each parent who did not file a tax return
  - Independent student and spouse if nontax filer



# Nontax Filers—Verification of Nonfiling

If individual is unable to obtain VNF from IRS or other tax authority and, based upon the institution's determination, it has no reason to question the student's or family's good-faith effort to obtain VNF, the institution may accept:

- A signed statement certifying the individual attempted to obtain the VNF and was unable; and
- Has not filed and is not required to file a 2017 income tax return; and
- Listing of sources of any 2017 income earned by the individual from work and the income earned; and
- A copy of IRS Form W-2 or equivalent document for each source of 2017 employment income earned by the individual

*January 9, 2019 Electronic Announcement - Changes to 2018-2019 and 2019-2020 Verification Requirements*



# Verification of Nonfiling Alternatives

- Individuals who are not U.S. citizens or residents, including spouses or parents of dependent students living in foreign countries who do not provide a Verification of Nonfiling Letter may provide:
  - Signed and dated statement that taxing authority does not provide nonfiling letter; or
  - Individual is unable to obtain non-filing letter; or
  - Verification Worksheet certifying:
    - Certifying individual has not filed and is not required to file a 2017 tax return; and
    - Listing each source of 2017 income earned from work along with the amount of income from each source
- Proof of that taxing authority's filing requirements such as guidance from the taxing authority's website



# Head of Household

- If married, parents **cannot** file taxes with a Head of Household filing status. However, an exception to this general rule exists...
- If parents are “considered unmarried” they **can** file Head of Household.

While not the only requirement to be “considered unmarried,” parents cannot be living or have lived in the same household for the last 6-months (of the tax year).

Marital Status: As of the date the FAFSA is completed.

Tax Filing Status: As of December, 31<sup>st</sup> 2017.



# Head of Household

- Financial Aid administrators are not required to be tax experts. However, The Dept. of Ed requires that FAAs know the requirements of filing statuses and when an individual can and cannot file Head of Household.
- If it is identified that a parent filed HOH erroneously, they must amend their 2017 taxes in order for their student to receive federal aid.
- IRS Publication 17 is your best friend. [www.irs.gov](http://www.irs.gov)



# “Will File” 2017 Taxes

- If selected for verification...
  - School must verify that student/parent did actually file
  - School's are only permitted to accept extension beyond the standard 6-month extension
    - HEROES Act (Individual called upon for Active Duty or National Guard Duty) **or**
    - IRS Letter of Approval for extension beyond 6-months
- If not federally selected, a school may choose to institutionally select the FAFSA for verification



# Tax Extensions

- Serving in a combat zone or a qualified hazardous duty area
- Living outside of the U.S.
- Living in a federally declared disaster area
- Needing an extension to pay U.S. estate or generation-skipping transfer taxes
- Other limited reasons



# Tax Extensions—Beyond 6 Months

- Must provide copies of:
- IRS Form 4868, “Application for Automatic Extension of Time to File U.S. Individual Tax Return”
- Unexpired IRS approval of extension beyond automatic 6-month extension
- W-2s or equivalent documents for each source of employment income received for tax year
- If self-employed, signed statement certifying amount of AGI and tax paid for tax year



# Tax Extensions—Beyond 6 Months

- Verification of nonfiling dated on or after 10/1/18 (even from dependent student); or
- Signed statement that individual attempted to obtain the VNF from the IRS or other tax authority and was unsuccessful; and
- Has not file 2017 income tax return and list the sources of 2017 income with amount of income from each source.
- If self-employed, signed statement must include amount of AGI and U.S. income tax paid for the applicable year



# Amended Tax Returns

- School notified through IRS DRT
  - Not self-reported on FAFSA
  - School is not required to ask
- IRS Request Flag is set to “07” if:
  - 1040X was filed
  - IRS corrected data
- School must follow up on all “07” Flags regardless of verification selection



# Amended Tax Returns—1040X Filed

- If 1040X and selected by CPS, verify using:
  - Tax Account Transcript in conjunction with Tax Return Transcript (without 1040X)
  - Record of Account Transcript by itself
- Tax Return Transcript will never reflect amended information



# Amended Tax Returns

When IRS corrects tax return:

- There will be no 1040X
- Verify using:
  - Tax Return Transcript with Tax Account Transcript;
  - Record of Account Transcript by itself; or
  - Tax Return Transcript with IRS notification detailing data changes to tax return
- IRS Request Flag will be “07”



# IRA, Pension, and Annuity Rollovers

- Rollovers are excluded from EFC
  - Using IRS DRT:
    - If distribution received, tax filer is asked to enter amount of any rollover
    - IRS Request Flag = “3” and IRS Data Field Flag = “2”
  - Not using IRS DRT:
    - Tax filer subtracts amount of rollover before reporting Untaxed Income
- Document amount of rollover with signed statement or tax transcript



# Scenario - Foreign Tax Returns

The student is selected for verification. Dad is not a U.S. citizen and owns a business in a foreign country, so he filed taxes only in that country. Mom is a U.S. citizen who lives and works in a foreign country. She filed separately from dad. She filed both a U.S. tax return and a foreign tax return for the entire tax year. Her U.S. tax return claims a Foreign Earned Income Exclusion from the foreign country (as noted on IRS Form 2555).



# Foreign Tax Returns

To file FAFSA and complete verification:

- Combine dad's foreign tax return amounts with mom's U.S. tax return amounts
- Ignore mom's foreign tax return
- Ignore mom's Foreign Earned Income Exclusion
  - Specifically excluded from FAFSA and need analysis under 480(b)(2) the Higher Education Act of 1965 (HEA), as amended



# Foreign Tax Returns

When same individual files U.S. tax return and foreign tax return:

- Only use data from U.S. return when filing FAFSA
- Do not need foreign tax return transcript/tax return from that individual
- Do not add back income from foreign tax return



# Verification After No Longer Enrolled

- Verification not required if:
  - Selected after no longer enrolled for award year (includes summer);
  - All Title IV disbursements have been made; **and**
  - Will not re-enroll later in same award year
- Any Title IV aid already disbursed while enrolled and eligible remains intact
- Same applies if student changes verification tracking groups after no longer enrolled



# Income That Cannot Be Included

- Cannot include resources specifically excluded from need analysis, such as:
  - Federal veteran's educational benefits
  - Military housing/housing allowance
  - State foster care or adoption assistance payments
  - Means-tested welfare benefits
  - Combat pay
  - Foreign income exclusions (IRS Form 2555)
  - In-kind support
- Not even using professional judgment (PJ)



# Questions?



A blue-toned illustration of a superhero silhouette standing on a reflective surface. The superhero is shown in profile, looking towards the right. The background is a dark blue space filled with white stars. A large, glowing blue gemstone is positioned to the right of the superhero. The overall scene is set against a bright blue light source on the right side.

**THANK YOU !**

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