

Because the FAFSA is the first step in the financial aid process, it's important that the form be completed correctly. In this chapter we discuss some of the more difficult questions that arise when filling out the line items on the FAFSA. For more information on how these line items are used to calculate the expected family contribution, see Volume 1: Student Eligibility.

The FAFSA is organized as steps, with each step consisting of a group of related questions. In addition, the FAFSA contains three pages of instructions for the form and one page of worksheets for calculating additional amounts that are entered in Steps 2 and 4.

This chapter will not repeat the application instructions but will give guidance for counselors on some of the questions that have arisen. Students can get similar advice on filling out the FAFSA on our Web site for students at <http://www.ed.gov/studentaid>. Note that where parents are mentioned it refers to the parents of dependent students.

STEP ONE: GENERAL STUDENT INFORMATION

Purpose: This section identifies the student and establishes his eligibility for aid from the FSA programs based on factors such as citizenship, educational level, and registration with Selective Service. (*Volume 1: Student Eligibility* explains these eligibility requirements.) Some of the questions are included to help the school package the student's aid award sooner and to eliminate the need for the student to fill out a separate state financial aid form.

- **Questions 1-3** ask for the student's name. The name, along with other identifying information, is used for several data matches. Because the U.S. Department of Education (ED) matches the student's name and Social Security Number (SSN) with the Social Security Administration (SSA), the name here should match the name on the student's Social Security card. Otherwise, other data might not match and the student will be told there was an inconsistency during processing.

The student should be very careful when entering his SSN; although it can be corrected after the SAR is produced, the number originally entered will always be used as the student's ID, and it is likely to cause confusion and extra work for the financial aid administrator if it doesn't match the student's SSN. To solve

FAFSA Steps 1-7

- Step One**—General student info
- Step Two**—Student's financial data
- Step Three**—Dependency questions
- Step Four**—Parental financial data (dependent students only)
- Step Five**—Household size (independent students only)
- Step Six**—Schools and school codes
- Step Seven**—Signature(s)

Completing the FAFSA

Information for students about completing the FAFSA is posted on the Web at

www.ed.gov/prog_info/SFA/FAFSA

You may wish to add a link from pages that students use on your Web site to this reference information.

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Questions 4-21 Student information

No SSN requirement for Pacific Island Residents

A student from the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau is not required to have an SSN. He or she should submit the FAFSA to the following address (not to the one printed on the FAFSA envelope):

Federal Student Aid Programs
P.O. Box 4003
Mt. Vernon, Illinois 62864-8603

this problem the student can file a new original FAFSA using the correct SSN.

- **Questions 4-7** ask for the student's permanent mailing address. This is not a school address, with one exception: An incarcerated student must use his college's administrative address and include with the FAFSA a letter from the school indicating that he is incarcerated and is using the school's address.
- **Question 8** asks for the student's SSN. With the exception noted in the margin, a student must have an SSN to apply for federal financial aid. If the student submits a FAFSA without an SSN, the FAFSA will be returned to the student unprocessed. To get an SSN or to determine what the number is if a student's Social Security card has been lost, the student must contact the local Social Security Administration office. For more information, call the SSA at 1-800-772-1213 (TTY: 1-800-325-0778).
- **Question 13** asks about U.S. citizenship and eligible noncitizenship. Examples of noncitizenship categories are given in the FAFSA instructions, and a detailed discussion of citizenship issues can be found in *Volume 1: Student Eligibility*. Only a citizen or an eligible noncitizen is eligible for aid from the FSA programs; however, a student should still submit the FAFSA if she might be eligible for aid from institutional or private sources that do not require citizenship.
- **Questions 15 and 16** ask about the student's marital status "as of today" — the day the application is completed. Marital status cannot be projected.
- **Questions 17-21** ask whether the student plans to attend full time, three-quarter time, half time, less than half time, or not at all during upcoming terms. This information will help the college package the student's aid. A student who is applying to more than one school should provide the enrollment status and terms at the school he is most likely to attend. A student who is not sure should mark "Full time."

A student attending a traditional semester-based school should fill out information for Fall 2002 and Spring 2003 (a winter term is not usually an option at such schools).

- **Questions 22 and 23** ask for the highest level of school completed by the student's father and mother. Some state agencies use this information to award grants and scholarships. "Father" and "mother" in these questions mean the student's birth parents or adoptive parents, but not stepparents or foster parents. Note that this definition of parents is unique to this question. All other questions use the definition given on page 7 of the FAFSA.

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Questions 22-35 Student information

- **Questions 24-26** ask for the student's state and date of legal residence. This information is used in the EFC calculation to determine the appropriate allowance for state and other taxes paid by that state's residents.

It also indicates which state agency should receive the student's FAFSA information. States have varying criteria for determining whether the student is a resident for purposes of state financial aid. However, residing in one state for four years will meet any state's criteria. Therefore, a person answering "Yes" to question 25 will likely meet the residency requirements of that state, while the state eligibility for a person answering "No" will depend on the date reported in question 26 and the specific state's requirements.

- **Question 30** asks for the student's grade level at the beginning of the 2002-03 school year. This question helps establish how much money the student may borrow under federal loan limits. Note that grade level is not based on the number of years the student has attended college, but on work completed towards the degree/certificate. For instance, a full-time student might attain 2nd-year grade level after one year of study, while a half-time student would take two years to reach that level.
- **Question 32** asks whether the student will have a first bachelor's degree before July 1, 2002, because eligibility for Federal Pell Grants and Federal Supplemental Educational Opportunity Grants (FSEOGs) is almost exclusively restricted to students who have not yet received bachelor's degrees.
- **Questions 33 and 34** ask the student to indicate what types of aid, in addition to grants, she is interested in receiving. This will help the school in packaging the student's award. If a student isn't sure about wanting loans or work-study, she should answer "Yes." That way the student will be considered for all types of aid that are available; at a later date, the student can decline any awarded aid she doesn't want. If the student doesn't want to take out a loan but the parents of the student want to get a PLUS loan, this question should be answered "Yes."
- **Question 35** asks whether the student has been convicted of any illegal drug offense. Students who have been convicted are not necessarily ineligible for aid. They should still complete and submit the FAFSA because even if they are ineligible for federal student aid, they may be eligible for state or institutional aid—many states and schools use the data supplied by the FAFSA to award their aid.

Students who answer "Yes" to question 35 and who fill out a paper original FAFSA will receive a worksheet with their SAR to determine whether the conviction affects their eligibility for

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Question 35 Drug convictions

federal student aid. If the date the student regains eligibility for aid falls before July 1, 2002, the worksheet will instruct the student to change the response to a “1,” indicating full eligibility for the award year. If the date of eligibility falls between July 1, 2002 and June 30, 2003, then the student will not be eligible for part of the award year and will need to change the response to a “2.”

If the date of eligibility falls after June 30, 2003, then the student’s response will remain a “3”—the student will not be eligible for federal aid during the award year unless he completes a qualified drug rehabilitation program, though he might be eligible for state or school aid. (See *Volume 1: Student Eligibility* for more information on drug convictions and eligibility.)

Students applying with a paper Renewal FAFSA who marked a “3” in the previous year will automatically receive a worksheet, and students using one of the electronic applications will be able to determine the correct response (1, 2, or 3) to the question before submitting their application.

A student who leaves FAFSA question 35 blank cannot be paid FSA funds until he provides that information by submitting a corrected SAR or ISIR.

Income and Assets Cites

Sec. 480(a), (b), (f), (g)

STEP TWO: STUDENT/SPOUSE INCOME AND ASSETS

Purpose: Questions 36-51 collect the student’s (and spouse’s) income and asset information. The FAFSA collects similar information about parents’ income and assets in Step Four, so we will discuss how these questions affect the parents as well as the student and spouse. Income information is used along with living allowances based on household size to calculate the student’s (and spouse’s) portion of the EFC.

If the student or the student’s parent wasn’t married in 2001 but is married at the time the application is completed, the applicant also needs to provide income and asset information for the new spouse. If the student or the student’s parent was married in 2001 but is now separated or divorced, or the spouse has died, the student or parent doesn’t provide income and asset information for his spouse, even though that information may be on the 2001 tax forms.

The FAFSA asks for “base-year income” and taxes paid because studies have shown that income from the completed tax year is a good predictor of the family’s financial situation for the current year. The base year for 2002-03 applicants is the 2001 tax year, so the FAFSA questions reference lines on the 2001 IRS tax forms. If 2001 tax data is not available yet, best estimates of the data can be used on the application, but the student will have to later correct it if the 2001 tax return then differs from the estimates.

The FAFSA also collects information for certain investments and assets. Applicants only report the net worth of assets, instead of reporting the value and debt. They should report asset amounts **as of the date the application is completed**.

- **Questions 36-38 (70-73 for parents)** ask the student if she has completed a 2001 tax return yet, which income tax return was filed or will be filed, and whether the student was eligible to file a 1040A or 1040EZ. ED's CPS uses this information in part to identify who is eligible for the simplified needs test (see margin note for questions 47-51, Assets).
- **INCOME: Questions 39-43 (74-77 for parents)** ask the student (and spouse) for the adjusted gross income (AGI) and number of exemptions. Dependent students report these items for their parents as well. Each question gives the line reference to the 2001 IRS tax forms. It will be easier for students to complete these income and tax-related questions if they've already completed their tax returns. The student can also estimate answers, but if the estimated information is wrong, the student must correct the FAFSA information when the tax return is filed. We've provided a worksheet to help students estimate their tax information.

Students or parents who filed a joint return but are now divorced or separated won't be able to copy the information from the tax forms. Instead, they must figure out how much of the income and taxes paid is attributable to them. For more on this calculation, see "Using a Joint Return to Figure Individual AGI and Taxes Paid" in chapter 3.

If the student, spouse, or parents were not required to fill out a tax return, the student should report any income earned from work in lines 42-43 (student and spouse) and/or lines 76-77 (parents). The W-2 form and other records should be used to determine these amounts. (Income earned from work is normally used to calculate an allowance for the additional costs incurred for working families—however, if no tax return was filed, the income earned from work will also be used in place of AGI.)

For a fiscal year tax return, as opposed to a return for the calendar year, the applicant should report information from the fiscal year tax return that includes the greater number of months in 2001.

If the student or parents filed a tax return using other than an IRS form, such as a foreign or Puerto Rican tax form, the student should report on the FAFSA the amounts (converted to U.S. dollars) from the lines of the non-IRS form that correspond most closely to those on the IRS forms.

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Questions 36-43 and 70-77 (Income)

Fiscal Year Return Example

Owen's parents file a fiscal year tax return. They start their fiscal year in September. The return they filed for the fiscal year starting in September 2000 includes eight months in 2001. The return they'll file for the fiscal year starting in September 2001 only includes four months in 2001. Therefore, they should use the information from the tax return for the fiscal year that started in September 2000.

Other Tax Forms

The following tax forms are considered alternatives to a U.S. Form 1040A and 1040EZ: the income tax returns required by the tax codes of the Commonwealth of Puerto Rico, Guam, American Samoa, the U.S. Virgin Islands, the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau. Information from these tax returns would be reported on the FAFSA in the same manner as U.S. tax information, and copies of these forms can be used for verification in the same way as U.S. tax forms are. Amounts are already reported in U.S. dollars and the school should look at tax return line items that are comparable to the U.S. line items for verification.

Estimated AGI Worksheet

Use this worksheet to estimate 2001 Adjusted Gross Income (AGI) if you do not have a tax return.

*For question 39
Student/Spouse*

*For question 73
Parent(s)*

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 self-employment tax, self-employed health insurance deduction, interest penalty on early withdrawal of savings, and alimony paid)	— _____ .00	— _____ .00
TOTAL — Write this amount in question 39 or 73:	\$ _____ .00	\$ _____ .00

Verifying "0" income

Occasionally, an applicant will file a FAFSA reporting 0 income for the base year. This can occur when the applicant's family has tax writeoffs that produce a negative AGI or when the applicant neglected to report some types of untaxed assistance. Zero income is noted in our CPS edits and may increase the likelihood that the applicant will be selected for verification.

If the CPS does not select the student for verification, you may still choose to ask the applicant for further information regarding his or her means of support during the base year.

Any cash support or money paid on behalf of the student, other than support from a parent, must be reported on Worksheet B and thus counted as untaxed income. If the student subsisted solely on in-kind help from a friend or relative, for instance, using a room at an aunt's house and eating meals with her aunt's family, you may use professional judgment to adjust the untaxed income line item to include the estimated value of that in-kind support. Similarly, you may adjust the income line items to reflect other sources of income when the family's tax return has a zero or negative AGI.

Worksheets A, B, and C for questions 44-46 and 78-80

Untaxed items are grouped in the worksheets on the back of the FAFSA. The applicant doesn't submit the worksheets themselves, but reports the totals from the worksheets in FAFSA items 44-46 (student/spouse) and 78-80 (parents). The totals from Worksheets A and B are added to untaxed income; the totals from Worksheet C are subtracted from AGI.

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Worksheet A Untaxed income

- **Worksheet A (questions 44 and 78)** asks for several types of untaxed income and benefits that are typically associated with the neediest households; this worksheet helps aid offices to identify applicants who might have more financial need.

Two of the items to be reported on this worksheet appear on the tax form, even though they are not taxed: the **Earned Income Credit (EIC)** and the **additional child tax credit**. If parents file a joint tax return and qualify for the EIC but then separate or divorce before the student files the FAFSA, the parent with whom the student lived longer in the last 12 months would determine his or her portion of the EIC by using the tax table or proportional distribution calculations. See “Using a joint return to figure individual AGI and taxes paid” in chapter 3.

The EIC and tax filing

The Department encourages students and parents of dependent students who are eligible for the EIC to file a tax return and claim the credit.

Some income that is not reported on the tax return should also be reported on Worksheet A:

- ➔ **Welfare benefits, including Temporary Assistance for Needy Families (TANF).** TANF is the name for the state-administered plans that replaced Aid to Families with Dependent Children (AFDC or ADC). While rent subsidies for low-income housing are a form of welfare, they are **not** counted on the FAFSA.
- ➔ **Untaxed Social Security benefits.** Worksheet A asks for “Social Security benefits received that were not taxed.” Tax filers can determine this amount from the IRS form 1040 by subtracting the taxable portion of Social Security benefits from total Social Security benefits.
- **Worksheet B (questions 45 and 79)** collects information about other untaxed income and benefits. Some forms of income are reported on the tax form even though they aren't taxed. Again, a student who hasn't filed will have to estimate these amounts, and students or parents may need to separate information from a joint return.

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Worksheet B
Untaxed income**Box 14 Items on the W-2**

The Department has reported that income listed in box 14 of the IRS's W-2 form may be disregarded. There are a few reasons for this: several of the items that the IRS suggests could be reported in box 14 are captured already on the FAFSA (in adjusted gross income for instance); also, employers could include in box 14 certain non-elective pension plan contributions, and non-elective contributions should not be counted in the need analysis; finally, because no employer is required to provide information in box 14, it is unlikely that employers will be consistent in what they report there.

There are exceptions though. For example, clergy parsonage allowances are frequently reported in box 14, though as stated above, employers aren't obliged to do that. Whether such allowances appear in box 14 or not, they should be included in the appropriate space on Worksheet B of the FAFSA. Also, the United States Postal Service (USPS), with approximately 850,000 employees, currently reports in box 14 voluntary employee contributions to the Thrift Savings Plan (TSP), which is a retirement plan for federal employees. These contributions should be included on Worksheet B as untaxed income. Other federal agencies put TSP contributions in the box for pension plan payments (box 13 on the 2000 W-2 and box 12 on the 2001 W-2), which therefore appear in the pension and savings blank on Worksheet B. The USPS is considering putting TSP contributions on the 2002 W-2 in the same box other federal agencies do.

If you find a box 14 item that belongs on Worksheet B, you can include it.

Worksheet B items that are answered from tax forms are:

- **Payments to tax-deferred or sheltered pension and savings plans (paid directly or withheld from earnings).** This includes untaxed portions of 401(k) and 403(b) plans. These types of payments are listed in boxes 12a through 12d of the W-2 and will have one of the following codes: D, E, F, G, H, or S. Note that employer contributions to these plans shouldn't be reported as an untaxed benefit.
- **Deductible IRA or Keogh payments.** If the student, spouse, or parent can exclude from taxation payments to an IRA or Keogh, those payments are reported as untaxed income. These amounts are reported on the tax return. Payments into Education IRAs aren't deductible, so they shouldn't be included in this amount.
- **Tax-exempt interest income.** Certain types of interest, such as interest on municipal bonds, are tax-exempt. This amount is on the tax return.
- **Foreign income exclusion.** If a U.S. tax filer earns foreign income, part of that income might be excluded from taxable income (using a Form 2555 or 2555EZ). This income counts as untaxed income, so the FAFSA tells the applicant to include the amount from line 43 of Form 2555 or line 18 of Form 2555EZ in Worksheet B.
- **Untaxed IRA distributions and pension payments.** Certain payments from IRAs or pensions are excluded from taxation. A tax filer determines how much of his IRA distribution or pension payment is taxable when he completes the tax return. The applicant needs to report these untaxed amounts on the FAFSA. Worksheet B explains how to determine the amount using the tax return.
- **Credit for Federal tax on special fuels—nonfarmers only.** Certain tax filers can claim a tax credit for excise taxes they paid during the year on some kinds of fuels. IRS Form 4136 is used to claim this credit, and Worksheet B directs the applicant to copy information from that form.

Worksheet B income not reported on the tax return:

- **Child support received for all children.**
- **Housing, food, and other living allowances.** Some people, particularly clergy and military personnel, receive these kinds of allowances as compensation for their jobs. Money received to pay for rent should be reported. For the free use of a house or apartment, the rent (market value) of a comparable house or apartment should also be reported. Similarly, if the student

received free room and board in 2001 for a job that was not awarded as student financial aid, the student must report the value of the room and board as untaxed income. Do not include rent subsidies for low-income housing.

- ➔ **Veterans' noneducation benefits.** This includes benefits such as the Death Pension or Dependency & Indemnity Compensation (DIC).
- ➔ **Any other untaxed income not reported elsewhere.** This can include worker's compensation, VA Educational Work-Study allowances, interest income on Education IRAs, untaxed portions of Railroad Retirement Benefits, Black Lung Benefits, Refugee Assistance, the untaxed portion of capital gains, and foreign income that wasn't taxed by any government.
- ➔ **Cash support.** The student reports any cash support he has received, except that a dependent student doesn't report support received from his parents. The student also must report any money paid to someone else on his or her behalf. For example, if a friend or relative gives the student grocery money, it's reported as untaxed income. If the friend or relative pays the student's electric bill or part of the student's rent, the student must report those payments as untaxed income. For example, if the student is living with a friend who pays the rent and the student's name is the only one on the lease, the rent paid is counted as cash support. Because the student's name is on the lease, he is responsible for the payments, and the friend is paying rent on his behalf. Note that the column for parents' information is marked out for this line item—only the student reports this information.

TIPS on reporting BENEFITS:

The applicant reports the actual amount of benefits received for the year in question, even if the amount is an underpayment or an overpayment that will be corrected in the next year. However, if the underpayment or overpayment was adjusted in the same year, only the net amount received during that year would be reported.

Any benefits received by the head of household on behalf of anyone included in household size as reported on the FAFSA are income to the head of the household. However, if members of the household, such as an uncle or grandmother, receive benefits in their own names, those benefits are not reported as income of the head of household. Note that these people can't be included in household size if they receive benefits, in their own names, that amount to more than half of their support.

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Worksheet B Untaxed income

Dependent Benefits Example

Paul receives Social Security benefits, but because he's a minor, the benefits are paid to Laurel, his adoptive parent, on his behalf. Laurel has to report these benefits as her untaxed income when she completes her FAFSA, even though the benefits are for Paul.

Stanislaw's Uncle Yvor lives with him. Yvor receives a small disability payment each month. This amount is paid directly to Yvor, so Stanislaw doesn't report it as income when he completes the FAFSA. The payment is small enough that Stanislaw is still providing more than half of Yvor's support, and so he includes Yvor as a dependent in his household size. However, next year Yvor expects to also start receiving a pension. The combination of the pension and the disability payment will be enough that Stanislaw won't be providing more than half of Yvor's support and therefore won't be able to include Yvor in his household size any more.

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Worksheet B

Untaxed income

Cash support (reported on worksheet B)

Support includes money, gifts, and loans, plus housing, food, clothing, car payments or expenses, medical and dental care, and college costs paid for on the student's behalf.

Examples of in-kind income (not reported)

- Food Stamp Program
- Women, Infants, and Children Program (WIC)
- Food Distribution Program
- National School Lunch and School Breakfast programs
- Commodity Supplemental Food Program (CSFP)
- Special Milk Program for Children
- Daycare provided by the Social Services Block Grant Programs (if the recipient receives **reimbursement** for childcare expenses, that amount is reported as income)
- WIA (formerly JTPA) educational benefits
- Rollover Pensions
- Payments and services received from states for foster care or adoption assistance, under Part A or Part E of Title IV of the Social Security Act

Income and benefits not to be included on Worksheet B:

- **Student aid** is taken into account in packaging aid (discussed in *Volume 1: Student Eligibility*) and shouldn't be counted as a benefit. Student financial aid includes tuition benefits a parent receives for a dependent (for example, from the parent's employer). Note that student aid that was included in the AGI is reported separately as an exclusion on Worksheet C so that it can be subtracted from income.
- **Payments and services received from states for foster care or adoption assistance**, under Part A or Part E of Title IV of the Social Security Act.
- **Per capita payments to Native Americans.** Per capita payments received in 2001 from the Per Capita Act or the Distribution of Judgment Funds Act should not be reported unless they exceed \$2,000. Any amount over that would be reported as untaxed income.
- **Heating/fuel assistance.** This includes payments or allowances received under the Low-Income Home Energy Assistance Act (LIHEA). Payments under the LIHEA are made through state programs that may have different names.
- **Flexible spending arrangements.** These are employee benefit programs, sometimes also called "cafeteria plans." Neither contributions to nor payments from these programs should be counted as untaxed income.
- **In-kind support.** In-kind support is other than money, such as free food or housing. If friends or relatives give the student food or allow the student to live with them rent-free, that support isn't included as untaxed income, though an FAA may use professional judgment to reduce the cost of attendance for independent students who receive such in-kind support. This is not the same as housing and other allowances received as compensation for a job, which, as stated earlier, must be reported. If the student is living with someone who is paying living expenses, it can be difficult to determine whether the support is cash support or in-kind support. The basic rule is: if someone pays money that the student would otherwise pay, that money is counted as cash support. See examples in the margin.
- **Worksheet C (questions 46 and 80)** collects information on items that are included in taxable income on the tax return but are excluded from income when calculating the EFC. The applicant doesn't subtract these from the AGI reported on the form but lists them separately on Worksheet C. The total from the worksheet is then reported on the FAFSA. The CPS subtracts that total from the AGI. Having the AGI from the tax return listed on the application makes verification easier.

STEP 2

Worksheet C
Excluded income**Worksheet C items that can be found on tax forms are:**

- ➔ **Education tax credits.** These are the Hope and Lifetime Learning tax credits; the application tells students where this information is on the tax return.
- ➔ **Taxable earnings for FWS or other need-based work programs.** The student may have received W-2s for these earnings. Otherwise, students will need to use any other records they received showing how much they earned.
- ➔ **Student grant and scholarship aid.** A student includes the amount of grants and scholarships she received that exceeds her tuition, fees, books, and supplies as part of her taxable income. The tax filer is also supposed to write this amount separately on the tax form next to the line where wages and other earnings are reported. If the information was reported this way, the student can copy that amount from the tax form.

Other items, not from tax forms, to be reported in Worksheet C:

- ➔ **National and Community Service (AmeriCorps) awards.** The National and Community Service Trust Act of 1993 allows one to earn money to pay for college or repay Title IV student loans by filling unmet community needs. Living allowances, education awards, and interest accrual payments reported as income should be reported as an exclusion. Do not list on Worksheet C AmeriCorps earnings or payments for health care or child care.
- ➔ **Child-support payments.** Any child-support payments made during 2001 by the student, spouse, or parent whose income is reported on the FAFSA should be reported as an exclusion. However, don't include child support paid for a child included in the household size reported on the FAFSA.
- **ASSETS: Questions 47-51 (student and spouse) and 81-83 (parents)** An asset is defined as property that is owned by the family and has an exchange value. A student does not report as assets possessions such as a car, a stereo, clothes, or furniture.

The FAFSA collects information about three types of assets in addition to cash, savings, and checking accounts: investments, businesses, and investment farms. Most assets are investments; some examples are college savings plans, real estate, trust funds, mutual funds, money-market funds, stocks, bonds, commodities, and precious metals. If the asset isn't a business or investment farm, it should be reported as an investment.

The law exempts certain assets from consideration for student aid purposes. Therefore, a family's **principal place of residence** is not reported as an asset, even if it is part of a family business. Neither is a family farm reported as an asset, only investment farms are (see the note in the margin on the next page).

Child Support Payments Example

Steven is married; he and his wife have one child. He's also paying child support for a child he had with another woman. This child doesn't live with Steven and his wife, but because he's providing over half the child's support (through his child support payments), he counts the child in his household size. Therefore, he doesn't report the amount of child support he pays in Worksheet C on his FAFSA. Steven's wife is also paying child support for a child of hers that doesn't live with her. She isn't providing over half the child's support, so the child isn't included in Steven's household size. Therefore, Steven can report the amount of child support his wife pays in Worksheet C on his FAFSA.

Rental Properties

Sometimes the student or parent will claim that rental properties represent a business. Generally, rental properties must be reported as real estate rather than as business assets. To be reported as a business, a rental property would have to be part of a formally recognized business. (Usually such a business would provide additional services, such as regular cleaning, linen, or maid service.)

Education savings accounts

Education IRAs have been appropriately renamed education savings accounts; they are considered an investment asset for the student beneficiary.

STEP 2

Questions 47-51 and 81-83 (Assets)

Family Farm

A farm (including equipment, livestock, etc.) isn't reported as an investment on the FAFSA if —

- it is the principal place of residence for the applicant and the applicant's family, and
- the applicant (or parents of a dependent applicant) materially participated in the farming operation.

Simplified Needs Test

The law provides a "simplified EFC" calculation for a student who meets certain income and tax-filing requirements. If the applicant is eligible based on the information on the FAFSA, the CPS will automatically exclude family assets from the EFC calculation. However, all applicants should include asset information—even if it isn't taken into account when calculating the EFC, some states and schools require this information for their own aid programs.

The FAFSA asks for the **net worth** of an investment, which is the total current market value of the investment minus those debts that are related to the investment. If the net worth is negative, the student reports a net worth of zero on the application.

Similarly for **businesses and investment farms**, the current net worth is reported for land, buildings, machinery, equipment, livestock, and inventories. The current market value of a business or investment farm is reduced by the debt owed on it to determine the net worth. Business or farm debt means only those debts for which the business or investment farm was used as collateral.

Excluded assets—not reported on the FAFSA:

- **Prepaid tuition plans.** As discussed on the next page, these plans allow units of tuition to be bought before the student attends college. Distributions from a prepaid tuition plan are applied to the beneficiary's higher education expenses and are included as part of the financial aid package. This is accomplished in one of two ways: either by reducing the student's cost of attendance by the amount of the distribution, or by including the amount of the distribution as a resource and estimated financial assistance. For the FAFSA, the investment value of prepaid tuition plans is not reported as an asset of either the holder or the beneficiary.
- **Pensions and whole life insurance.** Pensions aren't counted as assets for application purposes. Of course, when the income from a pension is distributed to the beneficiary, the income must be reported. The cash value or built-up equity of a life insurance policy (often referred to as a whole-life policy) isn't reported as an asset. The Education IRA is counted as an asset for the student beneficiary because, despite its name, it isn't a retirement account.
- **Excluded assets for Native American students.** The law explicitly excludes reporting any property received under the Per Capita Act or the Distribution of Judgment Funds Act (25 United States Code 1401, et seq.), the Alaska Native Claims Settlement Act (43 United States Code 1601, et seq.), or the Maine Indian Claims Settlement Act (25 United States Code 1721, et seq.).
- **Questions 50 and 51** ask about the student's veterans education benefits and for how many months they will be received. If students receive veterans education benefits, they must report the amount of monthly benefits they expect to receive during the school year (from July 1, 2001 through June 30, 2002). Benefits include a range of assistance from the U.S. Department of Veterans Affairs (VA), such as the Montgomery GI Bill benefits. Veterans education benefits are not used in the EFC calculation. Instead, the law requires that VA education benefits

be counted as a resource or estimated financial assistance when packaging campus-based aid or Stafford/PLUS loans. (See *Volume 1: Student Eligibility* for exceptions and further details on packaging FSA funds with VA educational benefits.)

STEP 2

Questions 47-51
and 81-83 (Assets)

Qualified state tuition plans

Some states sponsor plans that may also be known as qualified state tuition programs (QSTPs). Because these plans are covered in section 529 of the tax code, they may also be called section 529 plans. The IRS defines two types of QSTPs:

Prepaid tuition plans allow a person to buy tuition credits or certificates, which count as units of attendance. The number of units doesn't change, even though tuition will likely increase before the beneficiary gets to use the tuition credits. Prepaid tuition plans are not counted as assets; see Excluded assets on the opposite page.

State-sponsored college savings plans allow a benefactor to deposit money into an account that will be used for the beneficiary's college expenses. The buyer does not prepurchase tuition credits as with a prepaid tuition plan. Rather, this type of plan is essentially a special savings account. The value of a college savings plan should be treated as an asset of the owner and not the beneficiary, because the owner can change the beneficiary at any time.

If a student receives a distribution from a state-sponsored college savings plan, the distribution will be incorporated into the student's adjusted gross income (AGI), and so will be treated as taxable income of the student, in keeping with Internal Revenue Service rules on treatment of this income.

Reporting "take-back" mortgages

In a "take-back" mortgage, the seller takes back a portion of the mortgage from the buyer and arranges for the buyer to repay that portion of the mortgage to the seller. For IRS purposes, the seller must report the interest portion of any payments received from the buyer on Schedule B of IRS Form 1040. Therefore, if an amount is reported on this line of the tax return, the family probably has an asset that should be reported on the FAFSA. The value of the take-back mortgage is the value that the student should report. There would be no debt reported against this asset. For instance, if the family sold its house for \$60,000 and had a take-back mortgage of \$20,000, the family should report \$20,000 as the net worth of the investment. This amount will decrease each year, depending on how much of the principal the buyer paid back that year. (This concept would also apply to other forms of seller financing of the sale of a home or other property.)

Reporting trust funds

Trust funds in the name of a student, spouse, or parent should be reported as that person's asset on the application. As a general rule, the applicant must report the trust as an asset, even if the beneficiary's access to the trust is restricted. If the settlor of a trust has voluntarily placed restrictions on the use of the trust, then the student should report the present value of the trust as an asset, as discussed below. If a trust has been restricted by court order, however, the student should not report it as an asset. An example of such a restricted trust is one set up by court order to pay for future surgery for the victim of a car accident.

The way in which the trust must be reported varies according to whether the student (or dependent student's parent) receives or will receive the interest income, the trust principal, or both. In the case of divorce or separation, where the trust is owned jointly and ownership is not being contested, the property and the debt are equally divided between the owners for reporting purposes, unless the terms of the trust specify some other method of division.

Interest only

If a student, spouse, or parent receives only the interest from the trust, any interest received in the base year must be reported as income. Even if the interest accumulates in the trust and is not paid out during the year, the person who will receive the interest must report an asset value for the interest he or she will receive in the future. The trust officer can usually calculate the present value of the interest the person will receive while the trust exists. This value represents the amount a third person would be willing to pay to receive the interest income that the student (or parent) will receive from the trust in the future.

Principal only

The student, spouse, or parent who will receive only the trust principal must report the present value of his or her right to the trust principal as an asset. For example, if the principal is \$10,000 and it reverts to a dependent student's parents when the trust ends in 10 years but the student is receiving the interest earned from the trust, the student must report as a parental asset the present value of the parents' rights to the trust principal. The present value of the principal is the amount that a third person would pay at the present for the right to receive the principal 10 years from now (basically, the amount that one would have to deposit now to receive \$10,000 in 10 years, including the accumulated interest). Again, the present value can be calculated by the trust officer.

Both principal and interest

If a student, spouse, or parent receives both the interest and the principal from the trust, the student should report the present value of both interest and principal, as described in the discussion of principal only. If the trust is set up so that the interest accumulates within the trust until the trust ends, the beneficiary should report as an asset the present value of the funds (both interest and principal) that he or she is expected to receive when the trust ends.

Ownership of an asset

In some cases the ownership of an asset is divided or contested, which can affect how the student reports the asset:

Part ownership of asset

If the parent or student has only part ownership of an asset, the student should report only the owned part. Generally the value of an asset and debts against it should be divided equally by the number of people who share ownership unless the share of the asset is determined by the amount invested or the terms of the arrangement specify some other means of division.

Contested ownership

Assets shouldn't be reported if the ownership is being contested. For instance, if the parents are separated and can't sell or borrow against jointly owned property because it's being contested, the parent reporting FAFSA information would not list any net worth for the property. However, if the ownership of the property is not being contested, the parent would report the property as an asset. If ownership of an asset is resolved after the initial application is filed, the student can't update this information.

Lien against asset

If there's a lien or imminent foreclosure against the asset, the asset would still be reported until the party holding the lien or making the foreclosure completes legal action to take possession of the asset. If the status of the property changes after the application is filed, the student can't update the asset information.

STEP THREE: DEPENDENCY STATUS

Purpose: Over the years, most institutional financial aid policies have been based on the premise that the family is the first source of the student's support. The law governing the FSA programs has followed the same principle. However, like traditional need analysis systems, the law provides several criteria where the student is automatically considered to be independent of his parents. Note that whether the student lives with her parents does not affect the student's dependency status.

If the student is considered to be a dependent of his parents, information on the income and assets of the parents must be collected on the financial aid application. The CPS will calculate a parental contribution and add it to the student's contribution.

In unusual cases, an aid administrator can determine that a student who doesn't meet the criteria should still be treated as an independent student. (See discussion of "Dependency overrides")

- **Question 53 (graduate or professional study).** The FAFSA asks the student if she will be working on a master's, doctorate, or graduate certificate program in the school year. A student who answers "Yes" to this question is a graduate or professional student and is independent for purposes of Title IV aid.

Graduate and professional students aren't eligible for Pell Grants, so a student who incorrectly answers "Yes" to this question must submit a correction before he or she can get a Pell Grant.

Students should fill out the FAFSA based on their grade level at the start of the school year. If a dependent student completes her undergraduate program during the year and begins graduate school, she can update the answer to the dependency question on the SAR or ISIR so that the CPS can reprocess her application, or the aid administrator at the graduate school can recalculate her EFC and use it to package her graduate aid.

- **Question 54 (married).** This question must be answered according to the student's marital status at the time the FAFSA is completed. If the student is married and a divorce is planned, the student must file as married. If the student is engaged to be married, the student must still file as unmarried, unless he or she waits until after the marriage to complete the FAFSA. Note that a student **cannot** update FAFSA information for changes in marital status after the application is filed.

If the student has a relationship that meets the criteria for common-law marriage in his or her state, the student is considered to be married. A married student who is separated (not divorced) is considered married for determining dependency status.

STEP 3

Questions 52-54 Dependency status

Criteria for independence

For the 2002-2003 award year, a student is automatically independent if he or she meets any of the following criteria:

- The student was born before January 1, 1979.
- The student is a graduate or professional student.
- The student is married on or before the date he or she applies.
- The student is an orphan or is or was until 18 a ward/dependent of the court.
- The student is a veteran of the U.S. armed forces.
- The student has dependents other than a spouse.

(Cite: Sec. 480(d) of HEA)

Independent student with parental support example

Doug is a graduate student at Guerrero University. Because he's a graduate student, he's independent. However, he's still living with his parents, and has no income of his own. Although the FAA at Guerrero can't make Doug a dependent student, she decides to add an amount to his untaxed income as reported in Question 46 to account for the living expenses his parents are paying.

Student living with relatives example

Malia's father is dead, and her mother can't support her, so Malia's living with her grandmother. Her mother doesn't pay any money for her support. Malia doesn't meet any of the independence criteria, so she has to provide parental information. Because her grandmother hasn't adopted her, her grandmother isn't her parent. Malia will have to provide information about her mother on the form, unless her school decides to do a dependency override.

STEP 3

Questions 52-58 Dependency status

Legal dependent examples

George is living with Emma. George isn't employed, and has no income, so Emma is completely supporting him. Emma plans to continue supporting George through the end of the award year, so she answers "Yes" to the legal dependent question when she fills out her FAFSA.

Laurel is going to college and is her cousin Paul's legal guardian. Paul receives Social Security benefits, but because he's a minor, the benefits are paid to Laurel on his behalf. These benefits provide more than half of Paul's support and count as income to Laurel. Because Paul lives with Laurel and will be supported by her (through the Social Security benefits) throughout the 2002-2003 award year, Laurel answers "Yes" to the legal guardian question. Note that if Paul didn't live with Laurel, she would have to answer "No" to the question.

Early exit cadets

Students who attend a service academy and are honorably discharged prior to commission are veterans for FSA purposes but aren't veterans for VA purposes. These students will likely receive match results showing that they aren't veterans. Just like other students who receive these match results, if the early exit cadet meets one of the other criteria for independence, then no resolution is required. If, however, an early exit cadet meets no other independence criteria, the school will have to perform a dependency override to make the student independent. Of course, the school must have appropriate documentation of the student's situation.

- **Questions 55-56 (children and legal dependents).** Students who have legal dependents are independent. Legal dependents comprise children (including those who will be born before the end of the award year) of the student who will receive more than half their support from the student and other persons (except a spouse) who will both live with and receive more than half their support from the student. The same criteria apply to household size.
- **Question 57 (orphan or ward of the court).** The student is an **orphan** if both parents are dead and the student doesn't have an adoptive parent. Such a student is considered an orphan even if she has a legal guardian.

A student qualifies as a **ward of the court** if the court has assumed custody of him. In some states the court may impose its authority over a juvenile who remains in the legal custody of his parents; such a student is not a ward of the court. Also, neither emancipation (when a child is released from control of a parent or a guardian) nor incarceration of a student qualify him as a ward of the court. A student declared a ward of the court before (and remaining so through) the end of the award year, regardless of his living arrangements, is considered an independent student for that award year. If he has applied as a dependent student, he must update his status (chapter 4).

- **Question 58 (veteran of the U.S. Armed Forces).** For FSA eligibility, veterans are those who have been in active service (which includes basic training) in the U.S. Army, Navy, Air Force, Marines or Coast Guard and were released under a condition other than "dishonorable". There is no minimum amount of time the student has to have served to be a veteran, but it does have to be active service.

The application also tells students to answer "Yes" to the question about veteran status if they aren't yet a veteran but will be by June 30, 2003. Students who attended a **U.S. military academy** for at least one day and were released under conditions other than "dishonorable" count as veterans for Title IV purposes. Students currently attending a U.S. military academy and ROTC students are not veterans.

Members of the **National Guard or Reserves** are only considered veterans if they were called up to active federal duty by presidential order for a purpose other than training. It does not matter how long the active duty lasted or if the student returned to reserve status afterward, but, as with the other qualifying veterans, the student must have had a character of service that was not "dishonorable."

STEP 3

Questions 52-58 Dependency status

Who Counts as a Parent?

If the applicant answers “No” to questions 52-58, then she is dependent and must report parental information. In most cases it’s clear who the parents are, but not always.

✓ **Adoptive parents and stepparents**

An adoptive parent is treated just like a biological parent. For purposes of reporting income in Step 4, a stepparent is considered the equivalent of a biological parent if the student is dependent on the biological parent. However, a stepparent cannot be the sole parent for determining dependency status—the student can only be a dependent of a biological or adoptive parent.

✗ **Foster parents, legal guardians, and other relatives**

A foster parent or a legal guardian is not treated as a parent for SFA purposes. If the student’s parents are dead, the student is independent. Otherwise, a dependent student must report information about his or her parents even if he or she has a legal guardian, unless the school has a documented reason to perform a dependency override.

If a student is living with his or her grandparents or other relatives, the same principle applies. Unless the relatives have adopted the student, the income of the relatives should not be reported on the FAFSA as parental income. Any cash support from persons other than the student’s parents should be reported as untaxed income, as discussed in Step 2. The school may also consider other kinds of support as part of the student’s financial resources and use professional judgment to include the support under the item for student’s untaxed income (see chapter 4 on professional judgment).

Issues involving other sources of support for children and other household members

If the applicant is receiving support from other parties to raise the child, is the child still considered a legal dependent? In the case of government programs that provide benefits for dependent children, those benefits should be considered as part of the applicant’s support to the child. For instance, Temporary Assistance to Needy Families (TANF) and other benefits provided to applicants on the basis of their having dependent children are considered income to the applicant. Therefore, an applicant may be considered independent when one of the primary means of support for the qualifying child is the benefits the applicant is receiving or will receive for the child. (The Department *does not* follow the IRS Guidelines, which state that such recipients cannot claim their children as legal dependents because the assistance program provides more than 50% of the children’s support.)

If one or both of the applicant’s parents are directly or indirectly providing more than 50% support in cash or other assistance to the applicant’s child, then the applicant would answer “No” to the FAFSA question about legal dependents. “Indirect support” to the child includes support that a parent gives to the applicant on behalf of the child.

The situation is similar if the applicant is living with a parent and the parent is paying for most of the household expenses. In most cases, the applicant’s parent would be considered the primary source of support to the applicant’s child. Thus, the applicant would answer “No” to the question about legal dependents. However, there may be some cases where the applicant can demonstrate that she provides more than half of the child’s support, even while living at home, in which case the applicant would be considered independent and answer “Yes” to the question about legal dependents.

STEP 3

Questions 52-58 Dependency status

Veterans match (for question 58)

The FAFSA processing system also performs a match with the Department of Veterans Affairs (VA) records to confirm a student's veteran status. If the student answers "Yes" to the question about veteran status, the Department will send the student's information to the VA for matching. The VA will see whether the student is a veteran, and send the results back to the CPS. The match results are provided by a match flag in the FAA Information Section of the output document.

Successful match

There won't be any comments on the output document if the VA confirms that the student is a veteran.

Not a veteran

If the VA reports that the student isn't a veteran, the CPS assumes that the answer to the veteran question is "No." Note that because the VA's definition of "veteran" for VA benefits is more stringent than FSA's definition, the student might still be eligible for financial aid. There will be a comment on the output document for the student explaining the problem. If the VA results are wrong, the student should contact a regional VA office to have the records corrected and get proper documentation. However, if the student answered "Yes" to one of the other dependency questions, he or she is an independent based on that question and can receive student aid without resolving the VA problem. If the student answered "No" to all the other dependency questions, he or she is treated like a dependent student until the VA records are updated. Once the records are updated, the student can submit a correction marking the answer to the veteran question as "Yes" to have the VA perform the match again. If the student has documentation (such as a DD214---the Certificate of Release or Discharge from Active Duty---with "Character of Service" as anything but "dishonorable") showing that he or she is a veteran, the school can do a dependency override to treat the student as independent and allow the student to receive aid before the problem with the VA database is resolved. Also, if a National Guardsman or a Reservist who served on active duty (for other than training) did not receive a DD 214 but can obtain a letter from a superior officer that documents the call-up to active duty and that classifies the Character of Service as anything but "dishonorable," the student will be considered a veteran for FSA purposes.

Not on database

If the student isn't listed on the VA database, the CPS assumes that the answer to the veteran question is "No." Again, there will be a comment explaining the problem on the output document. A student who answered "Yes" to one of the other dependency questions doesn't need to resolve the problem before receiving student aid, although he or she should have the VA correct its database if it's wrong. A student who answered "No" to the other dependency questions is treated like a dependent student until he or she resolves the problem with the VA. The student must either provide parental data or resolve the problem with the VA and submit a correction marking the answer to the veteran question as "Yes" to have his or her veteran status confirmed. As mentioned above, the school can also do a dependency override if the student provides documentation that he or she is a veteran.

Active duty

If the student is currently on active duty, he isn't a veteran yet. However, if the student's active duty status will end by June 30, 2003, he is counted as a veteran for purposes of dependency status. Because the student might be a veteran later in the year, the CPS doesn't assume that the answer to the veteran question is "No." A student who is already independent by one of the other independence criteria doesn't have to resolve this situation. Otherwise, the student must provide documentation to the school that he will be released from active duty by June 30, 2003 before the school can disburse aid.

Veteran Status Match

<i>Result</i>	<i>Comment number and text</i>	<i>Action needed</i>
Successful match. Match Flag 1	No comment.	No resolution required.
Dependent and record found on VA database but not a qualifying veteran. Match Flag 2 C Code	162 The Department of Veterans Affairs (VA) did not confirm that you are or will be a qualifying veteran for purposes of receiving federal student aid for the 2002-2003 school year. If VA is correct, you must provide your parents' information (including signature) on this SAR if you have not already done so. If you believe you are or will be a qualifying veteran, contact a VA office to resolve this problem.	Resolution required. In this situation, CPS assumes No to the veteran status question. If the parents' data or signature were not provided, reject 15 or reject 2 would also appear on the SAR/ISIR. If the student believes the match results are wrong, the student should contact a regional VA office to have VA records updated. The student will then need to correct the veteran question to Yes, which will generate a correction that will be sent to VA for rematching. While the student is resolving the discrepancy with the VA, the FAA may collect documentation from the student that clearly demonstrates he is a veteran. The student might provide the DD214 (military separation form) showing that "character of service" is other than "dishonorable." However, until the information is corrected in the VA database, the match results will not change. If the documentation confirms that the student is a veteran, the FAA may do a dependency override and then disburse aid to the student.
Independent and record found on VA database but not a qualifying veteran. Match Flag 2	163 The Department of Veterans Affairs (VA) did not confirm that you are or will be a qualifying veteran for the 2002-2003 school year. If VA is not correct, you should contact a VA office to resolve this problem.	No resolution required. The CPS assumes No to this question, however, the student qualifies for independent status based on the responses to other dependency status questions. The student may contact a regional VA office to have VA records updated. The student could then answer Yes to the veteran question, which will generate a correction that will be sent to the VA for rematching. Until the VA database is corrected, the match results will not change.
Dependent and record not found on VA database. Match Flag 3 C Code	173 The Department of Veterans Affairs (VA) did not confirm that you are or will be a qualifying veteran for purposes of receiving federal student aid for the 2002-2003 school year. If VA is correct, you must provide your parents' information (including signature) on this SAR if you have not already done so. If you believe you are or will be a qualifying veteran, contact a VA office to resolve this problem.	Resolution required. The CPS assumes No to this question. If the parents' data or signature were not provided, reject 15 or reject 2 would also appear on the SAR/ISIR. If the match results are wrong, it's likely that the military branch or Department of Defense has not sent the data to the VA. The student should contact a regional VA office to have VA records updated. The student will then need to correct the veteran question to Yes so that his information will be rematched with the VA database. While the student is resolving the discrepancy with the VA, the FAA may collect documentation from the student that clearly demonstrates he is a veteran. The student might provide the DD214 showing that "character of service" is other than "dishonorable." If the documentation confirms that the student is a veteran, the FAA may do a dependency override and then disburse aid to the student.

Veteran Status Match (continued)

<i>Result</i>	<i>Comment number and text</i>	<i>Action needed</i>
Independent and record not found on VA database. Match Flag 3	174 The Department of Veterans Affairs (VA) did not confirm that you are or will be a qualifying veteran for the 2002-2003 school year. If VA is not correct, you should contact a VA office to resolve this problem.	No resolution required. The CPS assumes No to this question, but the student is independent for other reasons. It's likely that the military branch or Department of Defense has not sent the data to the VA. If the student is a veteran, he may contact a regional VA office to have VA records updated. The student could then answer Yes to the veteran question, which will generate a correction that will be sent to the VA for rematching.
Record found on VA database but applicant on active duty. Match Flag 4 C Code	180 The Department of Veterans Affairs (VA) has confirmed that you are currently serving in the U.S. Armed Forces. You indicated on your application that you will be released from active duty by June 30, 2003. You must provide documentation of this to your Financial Aid Administrator before you can receive federal student aid.	A student who is already independent by one of the other criteria doesn't have to resolve this problem. Otherwise, the student must provide documentation to the school that shows upcoming release orders from a military branch, typically in memorandum format or letter, stating intent to release. There is no requirement to reconfirm actual separation during the award year.

Dependency Overrides

The Higher Education Act allows an aid administrator to make dependency overrides on a **case-by-case** basis for students with unusual circumstances. If the administrator judges that an override is appropriate, he/she must document the unusual circumstances. **However, none of the conditions listed below, singly or in combination, qualify as unusual circumstances or merit a dependency override:**

- 1) Parents refuse to contribute to the student's education;
- 2) Parents are unwilling to provide information on the application or for verification;
- 3) Parents do not claim the student as a dependent for income tax purposes;
- 4) Student demonstrates total self-sufficiency.

Unusual circumstances do include an abusive family environment or abandonment by parents and may cause any of the above conditions. In such cases a dependency override might be warranted. See Chapter 4 for more information on other professional judgment changes.

An aid administrator may override only from dependent to independent. However, if an independent student is receiving substantial support from her parents, a school may use professional judgment to adjust one or more of the FAFSA data elements, such as untaxed income. Also, an aid administrator can cancel an override approved at another school.

To override the student's dependent status on an initial application through EDE, the aid administrator should use the Dependency Override code of "1" (see the *Application Processing Desk Reference* or the *EDE Technical Reference* for more information).

To authorize a dependency override on a paper FAFSA, the aid administrator marks the oval for an override, labeled "D/O," in the "School Use Only" box, fills in the school's Federal School Code, and signs. A separate letter attached to the application in lieu of making the override is **not** acceptable.

If the student has already applied, the FAA can use EDE or, beginning in spring 2002, FAA Access on the Web to authorize or cancel an override; overrides are no longer possible on the SAR.

STEP 3

Dependency Overrides

Dependency Overrides

HEA Sec. 480(d)(7)

FAFSA School Use Only Box

SCHOOL USE ONLY:	Federal School Code
D/O <input type="radio"/> ¹	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
FAA Signature	
<input type="text"/>	

STEP 4

Questions 59-83 Parent information

FSA and IRS household rules

The rules used for determining whether or not someone can be counted in the household for FSA purposes aren't the same as the IRS rules for determining household members or dependents. Whether a divorced or separated parent claims a child as a dependent on the tax form is irrelevant when deciding whose household the child belongs to for FSA purposes.

Dependent student household size example

Lydia is a dependent student. Her parents are married, so they are both included in the household size. Her brother Ron is 26 but is still being supported by their parents, so he is also included. Her sister Elizabeth is attending college but is an independent student and isn't supported by their parents, so she isn't included in the household size. Her sister Susan is not attending college, but is working and supporting herself. However, if Susan were to apply for student aid, she would be considered a dependent student, so she is included. Therefore, the household size that Lydia reports for her parents is 5.

Example: surviving parent and stepparent

Meurig's parents divorced when he was seven; his mother later remarried, and Meurig lived with his mother and stepfather. His stepfather didn't adopt him. His mother died in 1999, but his father is still living. Meurig doesn't meet any of the independence criteria, so he's a dependent student. Because his father is his only surviving parent, Meurig needs to report his father's information on the form, even though he's still living with and being supported by his stepfather.

STEP FOUR (DEPENDENT STUDENTS ONLY)— PARENTS' INFORMATION

Purpose: Questions 59-69 collect information about the student's parents and their household. Questions 70-83 collect income and asset information for the parents. These questions are answered in the same way as for the student, so we have noted the equivalent items where they are discussed under Step 2.

■ **Questions 60-63 (parents' name and SSN)** The FAFSA asks for the parents' social security numbers and last names in preparation for a future match with the IRS on AGI, taxes paid, number of exemptions claimed, and filing status. If the student doesn't report last name and SSN for at least one parent, the SAR and ISIR will contain a comment highlighting this. These are required data elements for the FAFSA; however, because the match is not yet in place, applicants who do not provide this information will still be eligible for financial aid. Aid administrators may encourage students to report this information but are not required to follow up with students if it's missing.

■ **Question 64 (household size)** The size of the household determines the amount of the standard living allowance that is used as an offset to the family income when calculating the EFC. The following persons may be included in the household size of a dependent student's parents:

- ➔ **The student and parents**, even if the student is not living with them. Exclude a parent who has died or is not living in the household because of separation or divorce.
- ➔ **The student's children and siblings**, regardless of where they live, if they will receive more than half their support from the student's parent(s) from July 1, 2002 through June 30, 2003. This includes unborn children and siblings of the student who will receive more than half support from the student's parent(s) from birth to the end of the award year. It also includes siblings who would be considered dependent based on the FAFSA dependency questions (i.e., they need not be students nor apply for aid).

For the purpose of including children in the household size, the "support" test is used, rather than residency, because there may be situations in which a parent supports a child who does not live with him or her, especially in cases where the parent is divorced or separated. If the parent receives benefits (such as social security or AFDC payments) in the child's name, these benefits must be counted as parental support to the child.

- ➔ **Other persons** who lived with and received more than half their support from the student's parent(s) at the time of application and will continue to do so throughout the award year.

Reporting information in cases of death, separation, divorce, and remarriage

If the parents of a student divorce or separate, a student must answer parental questions on the FAFSA as they apply to the surviving or responsible parent.

Surviving parent

If one, but not both, of the student's parents has died, the student will answer the parental questions about the surviving parent and won't report any financial information for the deceased parent on the FAFSA. If both the student's parents are dead when the student fills out the FAFSA, the student must answer "yes" to Question 58, making the student independent. Remember that an adoptive parent counts as a parent too, but a legal guardian doesn't. If the last surviving parent dies after the FAFSA has been filed, the student must update his or her dependency status and report income and assets as an independent student.

Stepparent

A stepparent is treated like a biological parent if the stepparent is married, as of the date of application, to a student's biological parent whose information will be reported on the FAFSA or if the stepparent has legally adopted the student. **There are no exceptions.** A prenuptial agreement does not exempt the stepparent from providing information required of a parent on the FAFSA. The stepparent's income information for the entire base year, 2001, must be reported even if the parent and stepparent were not married until after 2001.

Divorce of the student's parents

If the student's parents are divorced, he should report the information of the parent with whom he lived longer during the past year, regardless of which parent claimed him as an exemption for tax purposes. If the student lived equally with each parent or didn't live with either one, then he should provide the information for the parent from whom he received more financial support or the one from whom he received more support the last time it was given.

Separation of the student's parents or the student and spouse

A couple doesn't have to be legally separated in order to be considered separated. The couple may consider themselves informally separated when one of the partners has left the household for an indefinite period of time. Usually a married couple that lives together can't be considered informally separated. However, in some states, a couple can be considered legally separated even if they still live together. If the couple's state allows this, and they are legally separated, then they are considered separated though they are still living together. For a dependent student, use the same rules as for divorce to determine which parent's information must be reported.

Common-law marriage

If a couple live together and have not been formally married but meet the criteria in their state for a common-law marriage, their status should be reported as married on the application. If the state doesn't consider their situation to be a common-law marriage, then they aren't married, and a dependent student should follow the rules for divorce to determine which parent's information should be reported. Check with the appropriate state agency concerning the definition of a common-law marriage.

STEP 5

Questions 84-85 Student household

Number in college cite

HEA Sec. 474(b)(3)

Death, separation, divorce cite

HEA Sec. 475(f)

Divorce example

Marta is 22 and doesn't meet any of the independence criteria. Her parents divorced recently, and she hasn't lived with them since she was 18. Also, neither parent provided support in the past year. The last time she received support from her parents was when she lived with them and they were still married. Because her father's income was larger and he contributed more money to the overall household expenses, Marta determines that the last time she received support, most of it was from her father. She provides his income on the form.

Independent student household size example

Eddy is an independent student. He was married, but now he and his wife have separated. He's paying child support, but it isn't enough to provide more than half his children's support, so he can't include his children in his household size. Eddy's nephew Chavo lives with him and gets more than half of his support from him. Because Chavo lives with Eddy, he can be counted in the household size. Therefore, Eddy's household size is 2.

Having just turned 24, Chavo is also independent. Although he's living with Eddy, he's not providing any support to Eddy. Chavo's household size is 1.

- **Question 65 (number in college)** The EFC calculation accounts for the additional expenses of other students in the household. The student should **always** be included in the number in college. Others in the household are counted in the number in college if they are or will be enrolled at least half time in a degree or certificate program during the award year at a Title IV-eligible school (one eligible for any of the SFA programs). Parents are excluded from the number in college.
- **Questions 66-69** The parents' state of residence and the older parent's age are used in the federal need analysis. Parents who do not live in the US should enter "FC" for Question 66.
- **Questions 70-83 (tax forms filed by parents, income and assets)** The criteria for reporting income, assets, and the tax forms filed are essentially the same for parents as for the student, so you should refer to the discussion in Step Two for information on how to fill out questions 70-83.

STEP FIVE (INDEPENDENT STUDENTS ONLY)— HOUSEHOLD SIZE & NUMBER IN COLLEGE

Purpose: Questions 84 and 85 collect information about independent students. Only students who answered "Yes" to one or more questions in Step Three complete this step.

- **Question 84 (student's household size).** The following persons are included in the household size of an independent student:
 - ➔ **The student and his or her spouse**, unless the spouse has died or is not living in the household because of separation or divorce.
 - ➔ **The student's children**, regardless of where they live, if they will receive more than half of their support from the student from July 1, 2002 through June 30, 2003. This includes the student's yet unborn children who will receive more than half their support from the student from birth to the end of the award year.
 - ➔ **Other persons** who lived with and received more than half their support from the student at the time of application and will continue to do so for the entire award year.
- **Question 85 (number in college)** The student should **always** be included in the number in college. Other members of the household are counted if they are or will be enrolled at least half time in a degree or certificate program during the award year at a Title IV-eligible school. The definition of half-time enrollment for this question must meet the federal requirements, even if the school defines half time differently. (See *Volume 1: Student Eligibility* for enrollment status requirements.)

STEP SIX: SCHOOL INFORMATION

Purpose: These questions collect information about which postsecondary schools the student wants to receive his or her FAFSA information. The student can list up to six schools, and ED will send the student's information to each school listed.

For each school, the student is asked to indicate whether he or she expects to live on campus, off campus, or with his or her parents. While this information is not used to calculate the student's EFC, it is useful to the schools listed in projecting the student's financial need because housing costs will be part of the cost of attendance.

If the student wants information sent to more than six schools, she can use her SAR to change the schools listed or go to Corrections on the Web. Chapter 4 describes how a student can add or change schools on the list. Note: ED's central processor will send data to no more than six schools at a time for one student. For example, if a student originally listed six schools on the application and then updated or corrected information on the SAR or Corrections on the Web and replaced all six schools with new schools, only the six newly listed schools would get the updated or corrected data.

For a college to receive a student's data, the student must list the college's federal school code or enter the college's complete name, address, city, and state. School codes are not provided in the FAFSA; they are in a separate publication, the *Federal School Code List*. ED sends this list to high schools, colleges, and public libraries each fall around the same time the FAFSAs are distributed. The federal school codes are also on the Internet at <http://fafsa.ed.gov>.

STEP 6**Questions 86-97**
School information

STEP 7

Questions 98-102 Signatures

STEP SEVEN: SIGNATURE REQUIREMENTS

Purpose: By signing the FAFSA, the applicant is assuming responsibility for the accuracy of the information reported on the form.

- **Questions 98-99** In addition to certifying that the data on the FAFSA is correct, the student is also signing a Statement of Educational Purpose, which is required to receive FSA funds. Among other things, the student agrees to spend the FSA award only on educational expenses and affirms that he is not in arrears on federal loans or grants. If the student is dependent, one parent whose information is reported on the FAFSA must also provide a signature.
- **Questions 100-102** The law requires that if anyone other than a student, the student's spouse, or the student's parents prepares the application, then the preparer must write in his or her name, the firm/company name (if applicable), the firm/company address, and either the firm/company's Employer Identification Number (EIN, as assigned by the IRS) or the preparer's SSN. The preparer must also sign the form.

High school counselors, aid administrators, and others who help students with their applications by actually filling out line items on the form or dictating responses to items on the form are considered preparers. Preparers must complete this section even if they are not paid for their services.

Substitutes for a parent's signature

Although parental information must be provided for a dependent student, a high school counselor or a postsecondary school's aid administrator may sign the application in place of a parent if:

- the parents are not currently in the United States **and** cannot be contacted by normal means,
- the current address of the parents is not known, or
- the parents have been determined physically or mentally incapable of providing a signature.

The signature of a counselor or aid administrator serves as a mechanism to get the application through the processing system. The counselor or aid administrator must provide his or her title in parentheses next to his or her signature and briefly state the reason (only one reason is needed) why he or she is signing for the parents. The counselor or aid administrator assures a minimum level of credibility in the data submitted. However, the counselor or aid administrator does not assume any responsibility or liability in this process. If the aid administrator finds any inaccuracies in the information reported, he or she should direct the student to send the SAR through the normal correction process or should submit corrections through EDE.

Signatures for electronic applications

Electronic Data Exchange

If a student applies through EDE at your school, you must obtain the signatures on a completed paper FAFSA or on the “echo document” printed through EDE, and you must keep the signed document (original or imaged) in the school files even if the student doesn’t receive federal student aid or doesn’t attend your school.

FAFSA on the Web

Students who have PINs can electronically sign their FAFSA on the Web. Parents who have a PIN can also electronically sign. Both parents and students will have to provide their name ID (first two letters of their last name), SSN, and date of birth along with the PIN. Parents also must provide their child’s name ID, SSN, and DOB in order to match the parent’s signature record with the student’s FAFSA. See Action Letter #7 (Feb. 2001) for more details.

Alternately, students can print the signature page, sign it, and mail it to the processor. If the processor doesn’t receive the signature page within 14 calendar days of receiving the application data, it will mail a “reject 16” SAR to the student (“no student signature on an electronic application”), which the student can sign and return. If the student chooses not to print and send a signature page, or if no printer was available, the processor won’t wait 14 days to print a rejected SAR for the student, but will generate one within 72 hours of receiving the data.

If the student indicated on an electronic FAFSA that she would print, sign, and mail in a signature page but the processor has not received the signature page, the student can call FAFSA on the Web customer service and have her record released from the FAFSA hold file. Because no signature page has been received, the FAFSA processor will produce a rejected SAR and mail it to the student to sign and return. The processor will accept the first signature document it receives—either the signed signature page or the signed SAR.

Schools and states receive ISIRs for rejected records. A student’s reject 16 SAR and her ISIR will reflect the data that she provided on the application; however, the CPS won’t calculate an EFC for the student or do any database matches until it receives a signed signature page, a signed SAR, or an electronic signature. A school can also collect the required signatures at the school, either on the SAR or a document that has the required certification statements (EExpress allows schools to print out a signature page for the ISIR). The school can then submit an electronic correction showing that the signatures have been provided.

Renewal FAFSA on the Web

To access their Renewal FAFSA on the Web, students must provide their PIN along with other identifiers. In addition to allowing access to application data over the Internet, the PIN is a legal equivalent to a manual or “wet” signature for FSA purposes. For an independent student, no other signatures are needed, and the application will be processed within 72 hours.

For dependent students parents can sign with their own PIN. Otherwise, the student can print a signature page for the parent. If the student indicates that no printer was available, the CPS will generate a “reject 15” (no parent signature) output document for the student within 72 hours. If the student indicated she would send in a signature page, the processor will wait up to 14 calendar days to receive the signed page. If it doesn’t receive a signed signature page after 14 days, it will generate a reject 15 SAR and send it to the student. The student must have a parent sign the SAR and must send it back to the address on the SAR. For reject 15 records, a student’s SAR and ISIR will reflect the data provided on the application, but the processor won’t calculate an EFC for the student until it receives the parent’s electronic signature or the signed SAR or signature page.

Signature requirements for changes made after the FAFSA is filed will be discussed in chapter 4.

Signature Requirements: Application and Verification for all FSA programs

	<i>Application (FAFSA, FAFSA on the Web, EDE, FAFSA Express)</i>	<i>IRS Forms 1040 or other form submitted for verification</i>	<i>Verification Worksheet</i>
Student	Must sign statement that data are accurate (on paper FAFSA, echo document, or signature page; or by use of PIN)	Tax return must be signed by student (or spouse) or by the tax preparer (or preparer's stamp)	Must sign worksheet
Parent(s) (if student is dependent)	One parent must sign statement that data are accurate (on application, echo document, or signature page)	Tax return must be signed by one parent or by the tax preparer (or preparer's stamp)	One parent must sign
Aid Administrator	Must certify if overriding dependency status		

Signature Requirements for Changes *

	<i>Changes via SAR or Corrections on the Web</i>	<i>Changes submitted via EDE</i>	<i>Professional Judgment on SAR or through EDE</i>
Student	Must sign corrections statement on Part 2 of SAR: on the Web, the PIN serves as the student's signature.	School must have signed documentation	
Parent(s) (if student is dependent)	One parent must sign the corrections statement on Part 2 of the SAR; if parental data is changed on the Web, page must be printed and signed by parent.	School must have signed documentation	
Aid Administrator			Must certify for adjustments or dependency override

*These signature requirements apply to any submission of changes to the Central Processing System, whether required by regulation (for Pell Grant recipients or corrections to data match items) or at the discretion of the financial aid administrator (for campus-based aid and Stafford Loans).