

# Filling Out the FAFSA

*The FAFSA is the first step in the financial aid process. Because it's important to complete the form correctly, this chapter discusses some of the more difficult questions that arise. While the chapter more closely follows the organization of the paper application, the guidance applies equally to FAFSA on the Web. To see how FAFSA data are used to calculate the expected family contribution, refer to Chapter 3.*

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

As of the date the FAFSA is signed, it is considered a “snapshot” of the family’s information that can be updated only in certain circumstances and only for certain items; see Chapter 5.

This chapter provides guidance that supplements the application instructions. Students can get similar counsel on filling out the FAFSA on our website for students at [www.studentaid.ed.gov](http://www.studentaid.ed.gov). Where parents are mentioned it refers to the parents of dependent students. In parentheses are the numbers for the items as they appear on the paper FAFSA, SAR, ISIR, and FAA Access.

## STEP ONE: GENERAL STUDENT INFORMATION

**Purpose:** This section of the application identifies the student and establishes his aid eligibility based on factors such as citizenship, educational level, and Selective Service registration (see also *Volume 1: Student Eligibility*). Some questions are included to help the school package awards and to eliminate the need for students to fill out a separate state or school financial aid form.

- **Student’s name (1–3).** 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 one in the SSA’s records.
- **Permanent mailing address (4–7).** This cannot be the school address, with one exception: an incarcerated student may use his college’s administrative address and, if he is submitting a paper FAFSA, he will include with it a letter from the school indicating

### FAFSA Steps 1–7

- Step One**—General student info
- Step Two**—Student’s financial data
- Step Three**—Dependency questions
- Step Four**—Parent data (dependent students)
- Step Five**—Household size (independent students)
- 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.studentaid.ed.gov/completefafsa](http://www.studentaid.ed.gov/completefafsa)

You may wish to add a link from pages that students use on your website to this reference information. You can also download FAFSA on the Web banner graphics to use on your website. Go to <http://www.ifap.ed.gov/fafsa/0330FAFSA4caster.html>

# STEP 1

## Questions 8–20

### Student information

#### The SSN and certain Pacific island residents

A student from the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau (the Freely Associated States) is not required to have an SSN. These students mail their FAFSA to the same address as all other students. The CPS will assign an identification number to those who indicate on the application that their state of legal residence is one of the above Pacific island groups.

For Pacific island students who have been assigned an ID number in place of an SSN by the Department, we encourage them to use that number throughout their financial aid years.

#### Same-sex marriage and the Defense of Marriage Act (DOMA)

According to the Defense of Marriage Act (1996), "...the word 'marriage' means only a legal union between one man and one woman as husband and wife, and the word 'spouse' refers only to a person of the opposite sex who is a husband or a wife." Therefore, same-sex unions are not considered marriages for federal purposes, including the FAFSA.

that he is incarcerated and is using the school's address. If he is applying on the Web, he should send the letter to the FAFSA processor (the same address to which a paper FAFSA is sent) and be sure that it contains his SSN.

- **Student's SSN (8).** With the exception noted in the margin, a student must have an SSN to apply for federal student aid. If she submits a FAFSA without an SSN, the FAFSA will be returned to her unprocessed. To get an SSN or to determine what the number is if the Social Security card was lost, she must contact the local Social Security Administration office. Call the SSA at 1-800-772-1213 (TTY: 1-800-325-0778) for more information.

The student should be careful when entering her SSN; although it can be corrected after the FAFSA is processed, the number originally entered will always be used as her 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. While not required, the student can solve the confusion by filing a new original FAFSA using the correct SSN.

- **Student's e-mail address (13).** If the student provides this address, he should get an e-mail with a link to his online SAR data within one to three days after the CPS receives his application. The Department will also use this e-mail address to correspond with him regarding his application and PIN.
- **Citizenship status (14).** 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 citizens or, for most programs, certain classes of noncitizen are eligible for Title IV aid; however, a student should still submit the FAFSA if she might be eligible for aid from institutional, state, or private sources that do not require U.S. citizenship.
- **Student's marital status (16 and 17).** This is marital status "as of today"—the day the application is signed. Marital status cannot be projected or updated during the award year.

- **Student's state and date of legal residence (18–20).** This information is used in the EFC calculation to determine the appropriate allowance for state and other taxes.

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 their financial aid. However, residing in one state for four years will meet any state's criteria. Therefore, a person answering "Yes" to question 19 will likely meet the residency requirements of the state reported in question 18, while the state eligibility for a person answering "No" will depend on the date reported in question 20 and the state's requirements.

# STEP 1

## Questions 24–31

### Student information

- **Student’s grade level at the start of the school year (24).** Note that grade level is not based on the number of years the student has attended college but on work completed toward the degree/certificate. For instance, a full-time student might attain second-year grade level after one year of study, while a half-time student would take two years to reach that level. Note too that grade level is not the same as the Title IV academic year used in the ACG and National SMART Grant programs.
- **Enrollment status (25).** The student indicates whether at the start of the academic year she plans to attend full time, three-quarter time, half time, less than half time, or she doesn’t know. This information will help the college package her aid. A student who is applying to more than one school should provide the enrollment status for the school she is most likely to attend.
- **Types of aid (26).** The student indicates what types of aid, in addition to grants, she is interested in receiving. This helps the school in packaging her award. If she isn’t sure about wanting loans or work-study, she should answer “don’t know” so she will be considered for those types of aid that are available; later she can decline any aid she doesn’t want. If a dependent student doesn’t want to take out a loan but her parents want to get a PLUS loan, she should give an answer that doesn’t exclude loans.
- **First bachelor’s degree (28).** The FAFSA asks if the student will have a first bachelor’s degree before July 1, 2008, because eligibility for Pell, ACG, National SMART, and Federal Supplemental Educational Opportunity grants (FSEOGs) is almost exclusively restricted to students who have not received a bachelor’s degree or completed the requirements for one. See “Pell Grants” in Chapter 7 of *Volume 1: Student Eligibility* regarding degrees from unaccredited and foreign schools, which can count as bachelor’s degrees for Pell and FSEOG eligibility.
- **Highest level of school completed by student’s parents (29 and 30).** Some state agencies use this information to award grants and scholarships. Father and mother are defined here as the student’s birth or adoptive parents but not stepparents, guardians, or foster parents. This definition is unique to these questions—all others use the definition on page 3 of the FAFSA.
- **Conviction for possessing or selling illegal drugs (31).** Students convicted of a federal or state offense of selling or possessing illegal drugs that occurred while they were receiving federal student aid should still complete and submit the FAFSA because they may be eligible for federal aid, and even if they aren’t, they may be eligible for state or institutional aid.

Students who fill out their FAFSA online and answer “Yes” to question 31 will immediately receive a series of questions to determine their eligibility.

#### Undergraduate student definition

A student who is enrolled in a program of study that usually does not exceed four academic years or is enrolled in a longer program that is designed to lead to a first degree at the baccalaureate level. A student enrolled in a program that lasts longer than five years is considered an undergraduate for only the first four years.

For the purpose of the FSEOG, Pell Grant, ACG, and National SMART Grant programs, a student is an undergraduate only if he has not earned, or completed the requirements for, a bachelor’s or professional degree. Students enrolled in a postbaccalaureate program as described in 34 CFR 690.6 are still undergraduates for the purpose of Pell grants.

Students enrolled in dual degree programs that confer a bachelor’s degree and either a graduate or first professional degree are undergraduates for at least the first three years of the program. The school determines at what point after three years the student ceases to be an undergraduate.

34 CFR 668.2(b)

#### Graduate or professional student definition

A graduate student is one who: is not receiving aid as an undergraduate for the same period of enrollment; is enrolled in a program above the bachelor’s level or one leading to a first professional degree; and has completed the equivalent of at least three academic years of full-time study, either before entrance into the program or as part of it.

34 CFR 668.2(b)

# STEP 2

## Questions 32–34 and 76–78

### Tax return filed

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#### Income and assets citations

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

Students who fill out a paper FAFSA and answer “Yes” to this question will receive a worksheet with their SAR to determine whether the conviction affects their eligibility for federal student aid. If the date the student regains eligibility falls before July 1, 2008, the worksheet will instruct the student to change the response to a “1,” indicating full eligibility for the award year. If the date falls between July 1, 2008, and June 30, 2009, the student will not be eligible for part of the award year and will need to change the response to a “2.”

If the eligibility date falls after June 30, 2009, the student’s response will remain a “3.” The student will not be eligible for federal aid during the entire award year unless he completes a qualified drug rehabilitation program. See *Volume 1: Student Eligibility* for more on drug convictions and eligibility.

A student who leaves question 31 blank cannot be paid Title IV aid until he responds by submitting a corrected SAR or ISIR.

### STEP TWO: STUDENT/SPOUSE INCOME AND ASSETS

**Purpose:** Questions 32–47 ask for the student’s (and spouse’s) income and assets. Step Four collects similar information about parents’ income and assets, so the following discussion pertains to parents as well as the student and spouse. Income, assets, and living allowances are used to calculate the student’s portion of the EFC.

If the student or the student’s parent wasn’t married in 2007 but is married at the time the application is signed, 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 2007 but is now separated or divorced, or the spouse has died at the time the application is signed, the student or parent doesn’t provide income and asset information for that spouse, even though the information may be on the 2007 tax forms.

The FAFSA asks for income and taxes paid for the “base year,” which for 2008–09 applicants is the 2007 tax year, so the questions refer to lines on 2007 IRS tax forms. Data from the completed tax year is used as a predictor of the family’s financial situation for the current year. If 2007 tax data is not available yet, best estimates can be used on the application, though the student may need to correct them later if they differ from the tax return.

The FAFSA also collects information for certain investments and other 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 signed**.

■ **Tax return filed (32–34, 76–78 for parents).** These questions ask if a 2007 tax return was completed, which return was or will be filed, and whether the student or parents were eligible to file a 1040A or 1040EZ. The CPS uses this information in part to

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#### Income earned from work and the IRS 1040 form

The FAFSA instructs the applicant to sum lines 7, 12, and 18 of the 1040 form and box 14 of Schedule K-1 (Form 1065) as an option for determining the income earned from work. But when the values of lines 12 or 18 are negative, this will reduce the total and can wrongly affect the Social Security allowance. If values from lines 12 or 18 are negative, treat them as zero when determining the income earned from work.



identify if the student is eligible for the simplified needs test or the auto zero EFC (see margin note on page 19).

- **Adjusted gross income (AGI) and other tax data (35–39, 79–83 for parents).** Dependent students report these items for their parents. Each question gives the line reference to the 2007 IRS tax forms, so it will be easier for students to complete these questions if they’ve already completed their tax return. The student can also estimate answers, but if the estimated information is wrong, she might have to correct it when the tax return is filed. The worksheet on page 14 can help students estimate their tax information.

Students or parents who filed a joint return but are divorced, separated, or widowed when the application is signed 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 (not their spouses). For more on this calculation, see “Using a joint return to figure individual AGI and taxes paid” in Chapter 4.

If the student, spouse, or parents were not required by IRS rules to file a tax return, the student should still report any income earned from work in lines 38–39 (student and spouse) and/or lines 82–83 (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, but if no tax return was filed, it will also be used in place of AGI. Beginning in 2008–09, the application will be rejected if a nonfiler’s work income is above the tax filing threshold. Work income is used as well to calculate the offset for the Social Security tax (FICA).

For a fiscal year tax return, as opposed to one for the calendar year, the applicant should report information from the fiscal year return that includes the greater number of months in 2007.

If the student or parents filed a tax return using something other than a common 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 form that correspond most closely to those on the common IRS forms.

## Worksheets A, B, and C

Untaxed income appears on the worksheets included with the FAFSA. The applicant doesn’t submit these but reports their totals in questions 40–42 (student/spouse) and 84–86 (parents). The EFC formula adds to income the totals from Worksheets A and B and subtracts the total from Worksheet C.

# STEP 2

## Questions 35–39 and 79–83 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 2006 includes eight months in 2007. The return they’ll file for the fiscal year starting in September 2007 only includes four months of 2007. Therefore, they should use the information from the tax return for the fiscal year that started in September 2006.

### 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 IRS line items for verification.

### The earned income credit and tax filing

Students and parents of dependent students who are eligible for the EIC are encouraged to file a tax return and claim the credit.

## AGI Worksheet for those who have not completed a tax return

Use this worksheet to estimate adjusted gross income (AGI) if you have not completed a tax return.

For question 35  
Student/Spouse

For question 79  
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 35 or 79:**

\$ _____ .00
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\$ _____ .00
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### Zero income

Occasionally an applicant will report no income for the base year. This can occur when the family has tax write-offs that produce a negative AGI or when the applicant neglected to report 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 her for further information about her means of support during the base year. Also, you may use professional judgment (PJ) to adjust the income line items to reflect income the family receives that doesn't appear on the tax return.

Any cash support for the student, other than support from a parent for a dependent student, counts as untaxed income and must be reported on Worksheet B. In-kind help (see p. 18) from a friend or relative—for instance, using a room at an aunt's house and eating meals with her family—is not considered untaxed income, but you may use PJ to account for the value of that in-kind support (by adjusting the room and board component of the cost of attendance, for example).

# STEP 2

## Worksheets A & B

### Untaxed income

- **Worksheet A (40 and 84)** 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 high 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 portion of the EIC by using the tax table or proportional distribution calculations.

**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). Rent subsidies for low-income housing, however, 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 the total amount. When a parent receives benefits on behalf of the student, they are counted in the parent’s column.
- **Worksheet B (41 and 85)** collects information about other untaxed income and benefits. Some types of income are reported on the tax form even though they aren’t taxed. Again, a student who hasn’t filed a return will have to estimate these amounts, and students or parents may need to separate information from a joint return.

**Worksheet B items that are drawn 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 appear on the tax return.

#### Box 14 items on the W-2

Schools are not required to review income listed in box 14 of the IRS’s W-2 form. 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 or on Worksheet B, for instance); also, employers could include in box 14 certain nonelective 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.

But if you are aware that a box 14 item belongs on Worksheet B—i.e., if it represents discretionary income—you should include it in the appropriate space on the worksheet. For example, clergy parsonage allowances often appear in box 14, and you would count that on Worksheet B.

# STEP 2

## Worksheet B

### Untaxed income

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#### Combat pay

For students or parents with combat pay, the full amount must always be counted as income earned from work. If the person files a tax return, any untaxed portion should also appear on Worksheet B. If he does not file a tax return, none of his combat pay should be on Worksheet B—it should only appear as income earned from work. This is because income earned from work is used in place of AGI when the student is not a tax filer, so putting combat pay on Worksheet B would yield a double counting of funds. See Dear Colleague Letter GEN-05-16.

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#### 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.

→ **Tax-exempt interest income.** Certain types of interest, such as interest on municipal bonds, are tax-exempt. This amount is on line 8b on both the 1040 and 1040A forms.

→ **Foreign income exclusion.** If a U.S. tax filer earns foreign income, part of it might not be taxable, so the FAFSA instructs the applicant to include the untaxed amount (from line 45 of Form 2555 or line 18 of Form 2555EZ) on Worksheet B.

→ **Untaxed IRA distributions and pension or annuity payments.**

A tax filer determines how much of his IRA distribution or pension or annuity payment is taxable when he completes his tax return. The applicant reports the untaxed portion on Worksheet B but should not include rollovers (transfers of funds from one IRA to another). Worksheet B explains how to determine the untaxed amount from the tax return.

→ **Credit for federal tax on special fuels—nonfarmers only.**

Certain tax filers can claim a credit for excise taxes they paid 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 allowances as compensation for their jobs. Money received to pay for rent should also be reported, as should the free use of a house or apartment (the rent or market value of a comparable house or apartment can be used). Similarly, if the student received free room or board in 2007 for a job that was not awarded as student financial aid (including resident advisor positions that provide free room and board as part of the student's non-need-based employment compensation), she must report the value of the room and board as untaxed income. Do not, however, include rent subsidies for low-income housing.

→ **Veterans' noneducation benefits.** This includes disability, the death pension, Dependency & Indemnity Compensation (DIC), and VA educational work-study allowances.

→ **Any other untaxed income not reported elsewhere.** This can include disability, worker's compensation, combat pay, 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 support from his parents if he is dependent.



The student also must report any money paid to someone else on his behalf. For example, if a friend or relative pays his electric bill or part of his rent, he must report the amount as untaxed income. If he is living with a friend who pays the rent and the student's name is on the lease, the rent paid on his behalf counts as cash support because he is responsible for payments that his friend is making. 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 during 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.

Benefits the student or parent receives on behalf of anyone included in his FAFSA household size count as income to him unless the person (e.g., a grandmother) receives the benefits in her name. Such a person is not included in the household size if benefits in her name total more than half of her support.

### Income and benefits NOT to be included on Worksheet B:

- **Student aid** is accounted for in packaging aid (see *Volume 3: Calculating Awards and Packaging*) and does not count as income or a benefit in the calculation of the EFC. Student 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.** Money received in 2007 from the Per Capita Act or the Distribution of Judgment Funds Act should not be reported unless it exceeds \$2,000 per payment. Any amount over that is 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 called "cafeteria plans." Neither contributions to nor payments from these programs should be counted as untaxed income.

# STEP 2

## Worksheet B

### Untaxed income

#### Dependent benefits examples

Laurel's adopted son, Paul, receives Social Security benefits, but because he's a minor, the benefits are paid to Laurel on his behalf. She 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 and 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 because he expects to continue to provide more than half support during the award year, he includes Yvor as a dependent in his household size. However, starting the July after the current award 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 his uncle's support and therefore won't be able to include Yvor in his household size after this award year.

#### Independent student with parental support example

Doug is a graduate student, so he's independent even though he still lives with his parents and has no income of his own. Although the FAA at his school can't make him a dependent student, she decides to use professional judgment to add an amount to his untaxed income to account for the in-kind support his parents provide.

# STEP 2

## Worksheet C

### Excluded income

#### 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

#### Child support payments example

Steven and his wife each have a child from a previous relationship who doesn't live with them and for whom they pay child support. Because Steven provides over half of his daughter's support through his payments, he counts her 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 isn't providing over half of her son's support, so he isn't included in Steven's household size. Therefore, Steven can report the amount of child support his wife pays in Worksheet C.

→ **In-kind support.** In-kind support is other than money, for example, friends or relatives giving the student food or allowing him to live with them rent-free. That support isn't included as untaxed income, though you may use professional judgment (e.g., by reducing the cost of attendance or increasing income) with 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 a cost that the student is obligated to pay, the amount counts as cash support. See examples in the margin.

- **Worksheet C (42 and 86)** 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.

#### Worksheet C items that can be found on tax forms are:

- **Education tax credits.** These are the Hope and Lifetime Learning tax credits; the FAFSA refers to the pertinent lines on the tax return.
- **Taxable earnings from need-based work programs.** These are earnings from any need-based work program including FWS and need-based employment portions of fellowships or assistantships. The student might have received W-2s for these earnings. Otherwise, she will need to use any other records she received showing how much she earned.
- **Student grant and scholarship aid.** A student reports on Worksheet C **only** the amount of grants and scholarships received that is included in taxable income. This includes grant and scholarship (not employment) portions of fellowships and assistantships. Be sure to include any AmeriCorps benefits (awards, living allowances, and interest accrual payments) except those for health care or child care. For grant and scholarship aid that is part of the taxable income, the tax filer usually writes the 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.

#### Not from tax forms, but to be reported in Worksheet C:

- **Child support payments** made during 2007 because of divorce, separation, or legal requirement by the student, spouse, or

parent whose income is reported on the FAFSA are reported on Worksheet C. However, don't include child support paid for a child included in the household size reported on the FAFSA.

- **Assets (43–45, 87–89 for parents).** An asset is property that is owned by the family and has an exchange value. A student or parent does not report as assets possessions such as a car, a stereo, clothes, or furniture.

The FAFSA collects current (as of the day of signing the FAFSA) data about three types of assets in addition to cash, savings, and checking accounts: investments, businesses, and investment farms. Most assets are investments; examples include college savings plans, Coverdell savings accounts, real estate, installment and land sale contracts (including mortgages held), trust funds, mutual funds, money market funds, UGMA and UTMA accounts, certificates of deposit, stocks, stock options, bonds, commodities, and precious metals. If the asset isn't a business or investment farm, it should be reported as an investment.

A family's **principal place of residence** is not reported as an asset, even if it is part of a business. Neither is a family farm reported as an asset—only investment farms are (see the margin note).

The FAFSA asks for the **net worth** of investments, which is their total current market value minus their associated debts. If their net worth is negative, the student reports a zero.

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 farm was used as collateral.

Family-owned and controlled small businesses (which can include farms) that have 100 or fewer full-time or full-time equivalent employees do not count as an asset.

#### **Excluded assets—not reported on the FAFSA:**

- **Pensions and whole life insurance.** The value of a pension is not counted as an asset, but pension distributions do count as income—they appear in the AGI if taxable and on Worksheet B if untaxed. The cash value or equity of a life insurance policy (often called a whole-life policy) isn't reported as an asset.
- **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 U.S. Code 1401, et seq.), the Alaska Native Claims Settlement Act (43 U.S. Code 1601, et seq.), or the Maine Indian Claims Settlement Act (25 U.S. Code 1721, et seq.).

# STEP 2

## Questions 43–45 and 87–89 Assets

### **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 assets from the EFC calculation. However, some states and schools require this information for their own aid programs.

### **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

### **Rental properties**

Rental properties are an asset. A unit within a family home that has its own entrance, kitchen, and bath (a rented bedroom would not count therefore) and that is rented to someone other than a family member, counts as an asset. To calculate its net value, multiply the net value of the entire structure by the fraction the rented space represents. Similarly, if a family owned a ten-unit apartment building and lived in one of the apartments, 9/10 or 90% of the net value of the building would be an asset.

At times a student or parent will claim rental property as a business. Generally, it must be reported as real estate instead. A rental property would have to be part of a formally recognized business to be reported as such, and it usually would provide additional services like regular cleaning, linen, or maid service.

# STEP 2

## Qualified tuition programs

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### UGMA and UTMA accounts

The Uniform Gifts and Uniform Transfers to Minors Acts (UGMA and UTMA) allow the establishment of an account for gifts of cash and financial assets for a minor without the expense of creating a trust. Because the minor is the owner of the account, it counts as his asset on the FAFSA, not the asset of the custodian, who is often the parent.

### Qualified education benefits

The HERA grouped qualified tuition programs (QTPs, also known as section 529 plans because they are covered in section 529 of the IRS tax code) and Coverdell education savings accounts in the new category of qualified education benefits, which all have the same treatment: these savings vehicles are an asset of the owner (not the beneficiary because the owner can change the beneficiary at any time), but they are excluded as an asset when the owner is a dependent student.

States, their agencies, and some colleges sponsor plans known in the IRS tax code as qualified tuition programs. The IRS mentions two types of QTPs that are commonly called prepaid tuition plans and college savings plans. States may offer both plan types, but colleges may only sponsor prepaid tuition plans.

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. Prior to the HERA, prepaid tuition plans were estimated financial assistance; they are now an asset of the plan owner, and their worth is the refund value of the credits or certificates.

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 savings account, and its value as an asset is the current balance of the account.

Coverdell education savings accounts, or ESAs, are another tax-advantaged savings vehicle for college education. They are treated the same as college savings plans: the current balance is an asset of the account owner.

As long as distributions from QTPs and ESAs do not exceed the qualified education expenses for which they are intended, they are tax free, so they will not appear in the next year's AGI. They should not be treated as untaxed income or as estimated financial assistance. For more information on these benefits, see the IRS's Publication 970, *Tax Benefits for Education*.

### Reporting "take-back" mortgages

In a take-back mortgage, the seller of a house finances a portion of its cost for the buyer, who repays this additional mortgage to the seller. The seller reports the interest part of any payments received from the buyer on Schedule B of IRS Form 1040. Therefore, if a student or his parents report such interest on the tax return, it likely indicates an asset that should be reported on the FAFSA: the value of the take-back mortgage. There would be no debt reported against this asset. For example, if a dependent student's parents sold their house for \$200,000 and financed a take-back mortgage of \$40,000 to the buyer, the parents should report \$40,000 as the net worth of the investment. The worth will decrease each year depending on how much of the principal the buyer paid back that year. This concept applies 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, generally even if the beneficiary's access to the trust is restricted. If the settlor of a trust has voluntarily placed restrictions on its use, then the student should report its present value as an asset, as discussed below. If a trust has been restricted by court order, however, the student should not report it. 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.

How the trust must be reported depends on whether the student (or dependent student's parent) receives or will receive the interest income, the trust principal, or both. In the case of a 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. If the interest accumulates and is not paid out, the recipient must report an asset value for the interest she will receive. The trust officer can usually calculate the 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 for the interest income.

### Principal only

The person who will receive only the trust principal must report as an asset the present value of his right to that principal. For example, if a \$10,000 principal reverts to a dependent student's parents when the trust ends in 10 years and the student is receiving the interest, he would report the interest he received as income and report as a parental asset the present value of his parents' rights to the principal. The present value of the principal can be calculated by the trust officer; it's the amount that a third person would pay 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.

### 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 it ends, the beneficiary should report as an asset the present value of the interest and principal that 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, and imminent foreclosure of, an asset

If there's a lien against the asset, the net value of the asset is determined by subtracting from its total value any associated debt as well as the amount of the lien. If foreclosure of an asset is imminent, the net value of the asset would still be reported until the party 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.



# STEPS 2, 3

## Questions 46–49

### VA benefits and dependency status

#### Criteria for independence

For the 2008–09 year, a student is independent if he meets any of the following criteria from HEA Sec. 480(d), i.e., if he:

- was born before January 1, 1985
- will be a graduate or professional student
- is married as of the date he applies
- has dependents other than a spouse
- is an orphan
- is or was until 18 a ward/dependent of the court
- is a veteran of the U.S. Armed Forces or
- is currently serving on active duty for purposes other than training

- **Student’s veterans education benefits (46 and 47).** Students must report the amount of monthly benefits (if any) and the number of months they expect to receive them between July 1, 2008 and June 30, 2009. 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, they count as estimated financial assistance when packaging Campus-based aid or Stafford/PLUS loans. (See Chapter 6 in *Volume 3: Calculating Awards and Packaging* for exceptions and further details on packaging FSA funds with VA educational benefits.)

#### STEP THREE: DEPENDENCY STATUS

**Purpose:** The law governing the FSA programs is based on the premise that the family is the first source of the student’s support, and the law provides several criteria that decide if the student is considered independent of her parents for aid eligibility. Note that a student reaching the age of 18 or 21 or living apart from her parents does not affect her dependency status.

If the student is considered a dependent of his parents, information on the income and assets of the parents must be included on the FAFSA. The CPS will calculate a parental contribution and add it to the student’s contribution to derive an EFC.

In unusual cases an aid administrator can determine that a student who doesn’t meet any of the independence criteria should still be treated as an independent student. (See “Dependency overrides” later in this section.)

- **Graduate or professional study (49).** 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 is a graduate or professional student 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 can get a Pell grant, even if he is independent for another reason.

Students should fill out the FAFSA based on their expected grade level for the award 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 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.

- **Married (50).** This question must be answered according to the student’s marital status at the time the FAFSA is signed. If the student is engaged to be married, she must answer as unmarried

# STEP 3

## Questions 50–55

### Dependency status

unless she waits until after the marriage to complete the FAFSA. If she is married and planning to divorce, she must answer as married. Note that a student **cannot** update FAFSA information for changes in marital status after the application is signed.

If the student has a relationship that meets the criteria for common-law marriage in his state, the student is considered to be married. A married student who is separated (not divorced) is considered married for determining dependency status. A student who was independent only because he was married becomes dependent for the next award year if he divorces and cannot answer yes to any of the dependency questions.

- **Children and legal dependents (51–52).** 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 receive more than half their support from the student, and other persons (except a spouse) who live with and receive more than half their support from the student as of the FAFSA signing date and will continue to do so for the award year. The same criteria apply to household size.

For a student who applies after the award year has begun, in order to count a person not her child as a dependent, the future support for the award year plus that already given in that year must total more than 50% for the entire year. See the example in the margin.

- **Orphan or ward of the court (53).** 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 her. In some states the court may impose its authority over a juvenile who remains in the legal custody of her 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 her as a ward of the court.

- **Member or veteran of the U.S. Armed Forces (54 and 55).** The HERA expanded the definition of independent students to include persons on active duty in the U.S. Armed Forces (the Army, Navy, Air Force, Marines, or Coast Guard) for other than training purposes.

Veterans are those who were in active service (which includes basic training) and were released under a condition other than “dishonorable.” This includes those who fraudulently entered the service as long as their entire period of service was not voided. There is no minimum amount of time the student has to

#### Legal dependent examples

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 award year, Laurel answers “Yes” to the legal dependent question. If Paul didn't live with Laurel, she would have to answer “No” to the question.

Alan pays \$4,000 to support his girlfriend, Cathy, who lives with him. She has earned income of \$3,000, and she receives \$200 a month (\$2,400 a year) from her parents. She uses all of this for her support. Alan cannot consider Cathy a dependent since the \$4,000 he provides is not more than half of her total support of \$9,400.

In April 2008 Anika applies for aid for 2007–08. One month prior to that her cousin Bettina came to live with her. Even though Anika provides all of her cousin's support, the one month of support she has given plus the two months left in the award year would not amount to more than 50% for the entire year, so she can't consider Bettina her dependent for 2007–08. If Bettina had moved in just before the midpoint of the year, Anika would have been able to count her as a dependent for 2007–08.

# STEP 3

## Dependency status and overrides

### Early exit cadets

Students who attend a U.S. military academy or military academy preparatory school and who are discharged other than dishonorably prior to commission are veterans for FSA purposes but might not be 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 an early exit cadet meets one of the other criteria for independence, no resolution is required. But if he meets no other independence criteria, he must provide the school with documentation that shows he was a cadet of a military academy or its preparatory school.

### Student living with relatives example

Malia's father is dead, and her mother can't support her, so she is 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 there are unusual circumstances that would warrant a dependency override. Either way, the school might use PJ to account for the grandmother's support.

### Dependency overrides

HEA Sec. 480(d)(7). Also see Dear Colleague Letter GEN-03-07.

have served to be a veteran, but it does have to be active service. This is less stringent than the VA's definition of veteran for receiving certain VA benefits.

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, 2009. Students who attended a **U.S. military academy** or its preparatory school (USMAPS or NAPS, not high school academies) for at least one day and were released under conditions other than "dishonorable" count as veterans for Title IV purposes. Students serving in ROTC or currently attending a U.S. military academy 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."

### Dependency overrides

The Higher Education Act allows a financial aid administrator (FAA) to make dependency overrides on a **case-by-case** basis for students with unusual circumstances. If the FAA determines that an override is appropriate, she must write a statement detailing the determination and must include the statement and supporting documentation in the student's file. **However, none of the conditions listed below, singly or in combination, qualify as unusual circumstances meriting a dependency override:**

- 1) Parents refuse to contribute to the student's education;
- 2) Parents are unwilling to provide information on the FAFSA 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 5 for guidance on other professional judgment (PJ) changes.

An aid administrator may override only from dependent to independent (though as noted earlier, if an independent student receives substantial support from others, a school may use PJ to adjust the COA or FAFSA data items such as untaxed income).

Also, overrides do not transfer from one school to another—they are valid only at the school that performs them. Nor do they carry over from one year to the next; the FAA must reaffirm each year that the unusual circumstances persist and that an override is still justified.

Generally the documentation of unusual circumstances should come from a third party that knows the student’s situation (such as a teacher or member of the clergy), but in cases where this is not available, the school can accept a signed and dated statement from the student detailing the unusual circumstances.

To override the student’s dependent status on an initial application through FAA Access, the FAA should use the Dependency Override code of “1” (see the *EDE Technical Reference* for more information).

To authorize a dependency override on a paper FAFSA, the FAA 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 administrator can use FAA Access to CPS Online to authorize or cancel an override; overrides cannot be done on the SAR.

<b>SCHOOL USE ONLY:</b>	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"/> <input type="text"/>
FAA Signature	
<input type="text"/>	

## STEP FOUR: PARENTS’ INFORMATION (DEPENDENT STUDENTS ONLY)

**Purpose:** Questions 56–75 collect information about the student’s parents and their household. Questions 76–89 collect tax and financial information for the parents, and because these questions are answered in the same way as for the student, they were discussed under Step 2.

- **Parents’ personal information (56–65).** The FAFSA asks for parents’ SSNs, last names, first initial, date of birth, and month and year they were married, separated, divorced, or widowed. This is to prepare for a possible match with the IRS on AGI, taxes paid, filing status, and number of exemptions claimed. If the SSN, last name, and birth date for at least one parent are not provided, or if neither parent’s SSN matches with the Social Security Administration, the application will be rejected. When the SSN doesn’t match with SSA, the wrong number must be corrected so that the application and SSA agree. For a name or birth date that doesn’t match, correct the application if it’s wrong or re-enter the information if it’s correct. If the parent doesn’t have an SSN, enter 000-00-0000 to prevent or remove a reject code. (See also the SSN chapter in *Volume 1*.)

# STEPS 3, 4

## Questions 56–65

### Dependency overrides and parents’ information

#### Overrides and professional judgment

The phrase “professional judgment” is commonly used for the discretion that FAAs apply to dependency overrides and to data adjustments in the application. It is important to note that the provisions for these two types of changes are in separate places in the HEA. The citation for dependency overrides is in Sec. 480(d)(7); the citation for data adjustments is in Sec. 479A and is copied in toto in a margin note in the last chapter of this guide.

# STEP 3

## Who is a parent or has dependents

### Who counts as a parent?

If the applicant answers “No” to questions 48–55, 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 reporting income and assets in Step 4, a stepparent is considered a parent if married to a biological or adoptive parent and if the student counts in their household size.

However, a stepparent who did not adopt the student cannot be the sole parent for determining dependency status. If the other parent dies, the student is still a dependent of the remaining biological parent, not the stepparent. If no biological parent remains, the student answers “Yes” to Question 53 and is independent.

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

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

If a student is living with her grandparents or other relatives, the same principle applies. Unless the relatives have adopted the student, their income 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 5 on professional judgment).

### Other sources of support for children and other household members

If the student is receiving support to raise her child, is the child still considered a legal dependent? If one or both of the student’s parents are directly or indirectly providing more than 50% support in cash or other assistance to the child, then the student would answer “No” to the FAFSA question about legal dependents. “Indirect support” to the child includes support that a parent gives to the student on behalf of the child. If the student is living with a parent who is paying for most of the household expenses, the parent would usually be considered the primary source of support to the child, and the student would answer “No” to the question about legal dependents. However, there may be some cases where the student can demonstrate that she provides more than half of her child’s support even while living at home, in which case she would answer “Yes” to the question about legal dependents.

When the student receives money for the child from any source other than her parents, she may count it as part of her support to the child. Sources include child support and government programs, such as Temporary Assistance to Needy Families (TANF), that provide benefits for dependent children. (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.) Therefore, a student may be considered independent when the benefit she receives is the primary support for her child. For example, if a student who lives alone with her child receives cash from her boyfriend that amounts to more than 50% support for her child, then she would be able to count the child as a dependent and in her household size, and she would be independent. If the boyfriend is the father of the child and a student himself, then he would also be able to count the child as a dependent and in his household size, and he would be independent too.



# STEP 3

## Veteran match

### **Veteran match (for question 55)**

If the student answers “Yes” to the question about veteran status, the CPS performs a match with the Department of Veterans Affairs (VA) records to confirm that status. The VA sends the result back, which appears as a match flag in the FAA Information section of the output document. For flags 2, 3, and 4, a comment and a C flag will appear on the SAR only if veteran status is the sole reason that the student would be independent. See Appendix B in *The ISIR Guide for 2008–09*.

#### **Successful match (match flag 1)**

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

#### **Not a veteran (match flag 2)**

A student will receive this flag if the VA database indicates he is not a veteran. If the student answered “Yes” to one of the other dependency questions, he is independent based on that question and can receive student aid without resolving his veteran status.

If the student answered “No” to all the other dependency questions and he believes he is a qualifying veteran, he should provide the financial aid office at his school a copy of his DD214 (the Certificate of Release or Discharge from Active Duty, with “Character of Service” as anything but “dishonorable”). If it shows that he is a veteran, he can receive aid as an independent student. A dependency override is not necessary because the CPS accepts his “Yes” answer to the veteran question. 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. If the student turns out not to be a veteran, he will need to change his answer to the question from “Yes” to “No” and provide parent information including a parent’s signature.

If the VA match problem is due to an error in the VA’s database, the student should contact the VA and correct the error. A subsequent transaction will then redo the match with the VA.

#### **Not on database (match flag 3)**

Much of the guidance above applies for students not on the VA database: if the student is independent for a reason other than being a veteran, she doesn’t need to resolve the problem before receiving student aid, although she should have the VA correct its database if it’s wrong. If she answered “No” to the other dependency questions, she must either correct any problem with the VA, provide documentation showing she is a veteran or will be one by June 30, 2009, or, if she is not a veteran and will not be one by that date, provide parent data and change her response to the question from “Yes” to “No.”

#### **Active duty (match flag 4)**

If the student is currently on active duty, he isn’t a veteran yet, but if his active duty will end by June 30, 2009, he counts as a veteran for dependency status. Because he should have answered “Yes” to the active duty question, he would be independent by that criterion, and he wouldn’t have to resolve this situation.

# STEP 4

## Questions 66–70

### Parents' data

#### FSA and IRS household rules

The rules that decide whether someone is counted in the household for FSA purposes aren't identical to the IRS rules for determining dependents or household members.

#### Dependent student household size example

Lydia is a dependent student, and her parents are married. Her brother Ron is 26, but his parents still provide more than 50% of his support, so he is included in the household size. 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 last year, 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.

- **Household size (66).** This determines the standard living allowance that offsets the family income in the EFC calculation. 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 siblings and children**, if they will receive more than half their support from the student's parent(s) from July 1, 2008, through June 30, 2009. Siblings need not live in the home. 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 her, such as when 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. An exception to this is foster care payments, which typically cover the costs of foster children, who for FSA purposes are not considered children of the foster parents and are not counted in the household size.

→ **Other persons** who live with and receive more than half their support from the student's parent(s) and will receive more than half support for the entire award year. When the application is submitted after the start of the year, see the relevant paragraph and example about legal dependents on page 23.

- **Number in college (67).** The applicant should **always** be included in the number in college, but parents are not included. Others who count in the household size are in the number in college if they are or will be enrolled at least half time during the award year in an eligible degree or certificate program at a school eligible for any of the Title IV (FSA) programs. 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.) Do not include students at a U.S. military academy because most of their primary educational expenses are paid for.
- **Parents' state of residence (68–70).** Parents who do not live in the U.S. should enter "FC" for Question 68.

## 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.

### Death of a parent

If one, but not both, of the student's parents has died, the student answers the parental questions about the surviving biological or adoptive parent and does not report any financial information for the deceased parent. If both her parents are dead when she fills out the FAFSA, she must answer "yes" to Question 53, making her independent. Remember that an adoptive parent counts as a parent, but a legal guardian doesn't. If the last surviving parent dies after the FAFSA has been filed, the student must update her dependency status and report income and assets as an independent student.

### Stepparent

A stepparent is treated like a biological parent if the stepparent has legally adopted the student or if the stepparent is married, as of the date of application, to a student's biological or adoptive parent whose information will be reported on the FAFSA. **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, 2007, must be reported even if the parent and stepparent were not married until after 2007. See above for how to fill out the parent questions when the stepparent's spouse (the biological parent) dies; if the stepparent has not adopted the student, he would no longer provide parental information as before, but any financial support he gives to the student would be counted as untaxed income.

### 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 twelve months prior to the date he completes the application, 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 calendar year for which it was given. Note that it is not typical that a student will live with or receive support from both parents exactly equally. Usually you can determine that the student lived with one of the parents more than half the year or that he received more than half support from one of the parents.

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

A couple need not be legally separated to be considered separated—they may deem themselves informally separated when one of the partners has left the household for an indefinite period and the marriage is severed. While a married couple that lives together can't be informally separated, in some states they can be legally separated. If their state allows this, and if they are still living together and are legally separated, then that is their status on the FAFSA. For a dependent student, use the rules for divorce to determine which parent's information to report.

### Common-law marriage

If a couple lives together and has not been formally married but meets the criteria in their state for a common-law marriage, they 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; a dependent student would follow the rules for divorce to determine which parent's information to report. Check with the appropriate state agency concerning the definition of a common-law marriage.

# STEPS 4, 5

## Questions 71–96

### Parent and student household

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#### Number in college

HEA Sec. 474(b)(3)

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#### Death, separation, divorce

HEA Sec. 475(f)

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#### 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 data on the FAFSA.

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#### 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 Eddy (and will do so for the award year), so he can be counted in Eddy's household size, which is 2.

Having just turned 24, Chavo is also independent, and his household size is 1.

- **Receipt of means-tested federal benefits (71–75).** This as an alternative for the tax return requirement of the simplified needs and automatic zero EFC tests.
- **Tax forms filed by parents, income, and assets (76–89).** The criteria for reporting income, assets, and the tax forms filed are basically the same for parents as for the student, so refer to the discussion in Step Two for these questions.

### STEP FIVE: FOR INDEPENDENT STUDENTS ONLY

**Purpose:** Questions 90–96 collect information about independent students. Only students who answered “Yes” to one or more questions in Step Three complete this step.

- **Student's household size (90).** 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 due to 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, 2008, through June 30, 2009. This includes the student's unborn children who will be born during the award year and will receive more than half their support from the student from birth to the end of the award year. Foster children do not count in household size.
  - **Other persons** who live with and receive more than half their support from the student and will receive more than half support for the entire award year. When the application is submitted after the start of the year, see the relevant paragraph and example about legal dependents on page 23.
- **Number in college (91).** The student should **always** be included in the number in college. Also included are those in the household size who are or will be enrolled at least half time during the award year in a degree or certificate program at a Title IV-eligible school and who can reasonably be expected to receive aid from the family for their education. This excludes students at a U.S. military academy because their entire education is paid for. The definition of half-time enrollment for this question must meet the federal requirements, even if the school defines half time differently.
- **Receipt of means-tested federal benefits (92–96).** This as an alternative for the tax return requirement of the simplified needs and automatic zero EFC tests.

## STEP SIX: SCHOOL INFORMATION

**Purpose:** These items collect information about which colleges the student wants to receive his information. For a college to be able to receive his data, the student must list the college’s federal school code (not the OPE ID) or enter its complete name, address, city, and state. There is a federal school code search on the FAFSA on the Web site ([www.fafsa.ed.gov](http://www.fafsa.ed.gov)), and the entire list of school codes is available as a portable document format (PDF) file on the IFAP site ([www.ifap.ed.gov](http://www.ifap.ed.gov)).

For each school, the student is asked to indicate whether he expects to live on campus, off campus, or with his parents. While this information is not used to calculate the student’s EFC, it is useful to schools for determining the cost of attendance.

The student can list up to four schools on the paper FAFSA, ten on the Web (at least one is required). If he wants his information to be available to more schools, he can use his SAR or Corrections on the Web to change the schools listed. The CPS will send data to no more than four (or ten) schools at a time for one student. Chapter 5 describes how a student can add or change schools on the list.

## STEP SEVEN: SIGNATURE REQUIREMENTS

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

- **Date and signature(s) (98–99).** In addition to certifying that the data on the FAFSA are 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 FSA funds only on educational expenses and affirms that he is not in default on a federal loan or does not owe a grant overpayment. If he is dependent, one parent whose information is reported on the FAFSA must also provide a signature.
- **Preparer’s ID and signature (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 include his name, his company’s name (if applicable) and address, and either his SSN or the company’s Employer Identification Number (EIN, as assigned by the IRS). With the paper FAFSA, 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.

# STEPS 6, 7

## Questions 97–102

### School information, date, and signatures

#### Copies of signed documents

While you will often receive documents with original or “wet” signatures from the student (e.g., a paper FAFSA that the student has worked on and signed while in your office), there might be an occasion where the student gives you a copy or sends you a fax of a signed document. Except for a copied FAFSA, other imaged versions of the original signed document are valid and may be kept in the student’s file.



## Substitutes for a parent's signature

Although parent information must be provided for a dependent student, a high school counselor or a college 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 signer must provide her title in parentheses next to her signature and briefly state the reason (only one is needed) why she is signing for the parents. The signer assures a minimum level of credibility in the data submitted, however, she does not assume any responsibility or liability in this process. If the counselor or FAA finds any inaccuracies in the information reported, she should direct the student to send the SAR through the normal correction process or, if she is an FAA, she can submit corrections through FAA Access. Because this proxy signing isn't possible electronically, it must be done on a paper FAFSA or on the echo document used with FAA Access.

<b>Signature Requirements: Application and Verification for All FSA Programs</b>			
	<b><i>Application (FAFSA, FAFSA on the Web, FAA Access to CPS Online)</i></b>	<b><i>IRS Forms (1040 or other form sub- mitted for verification)</i></b>	<b><i>Verification Worksheet</i></b>
<b><i>Student</i></b>	Must sign statement that data are accurate and other conditions are met (on paper FAFSA, Web summary, or signature page or by using PIN).	Tax return must be signed by student (or spouse), or the tax preparer must provide his name and SSN, EIN, or PTIN.	Must sign worksheet.
<b><i>Parent(s) (if student is dependent)</i></b>	One parent must sign statement that data are accurate (on paper FAFSA, Web summary, or signature page or by using PIN).	Tax return must be signed by one parent, or the tax preparer must provide his name and SSN, EIN, or PTIN.	One parent must sign.
<b><i>Aid Administrator</i></b>	Must certify if overriding dependency status (can't be done on FAFSA on the Web).		
<b>Signature Requirements for Changes*</b>			
	<b><i>Changes via SAR or Corrections on the Web</i></b>	<b><i>Changes submitted via FAA Access</i></b>	<b><i>Professional Judgment via FAA Access</i></b>
<b><i>Student</i></b>	Must sign corrections statement on the SAR; on the Web the PIN serves as the student's signature		
<b><i>Parent(s) (if student is dependent)</i></b>	One parent must sign the corrections statement on the SAR. If parent data are changed on the Web, a parent must sign with PIN or print and sign signature page.		
<b><i>Aid Administrator</i></b>		School must have signed documentation from student and parent.	Must certify for adjustments or dependency override.

\* These 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).

## Signatures for electronic applications

### FAA Access to CPS Online

If you enter a student's original application through FAA Access to CPS Online, you must obtain original or "wet" signatures on the printed signature page/FAFSA summary or on a completed paper FAFSA, and you must keep the signed document in the school files even if the student doesn't receive federal student aid or attend your school. You may electronically store the original document, but you may not accept faxed or copied signatures from the student for the FAFSA. (You have more latitude regarding verification documents and changes to the application; see Chapters 4 and 5.)

### 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.

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 official EFC for the student (an unofficial EFC that cannot be used to award or disburse aid will appear on the ISIR) 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 "wet" signatures at the school, either on the SAR or a document that has the required certification statements (FAA Access 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.

Parents of dependent students 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 5.