

- **Flexible spending arrangements.** These are employee benefit programs, sometimes called “cafeteria plans.” Neither contributions to nor payments from these programs should count as untaxed income.
- **Welfare benefits, untaxed Social Security benefits, and the earned income and additional child tax credits.** Welfare benefits are means-tested state or federal supplementary assistance. Examples are benefits from Medicaid (including the Children’s Health Insurance Program), the Supplemental Nutrition Assistance Program (SNAP), and Temporary Assistance for Needy Families (TANF).
- **Combat pay, foreign income exclusion, and credit for federal tax on special fuels.**
- **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 the student is obligated to pay, the amount counts as cash support.

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 his parents for aid eligibility. Note that a student reaching the age of 18 or 21 or living apart from his parents does not affect his dependency status. For the 2017–2018 year, a student who meets any of the following criteria from HEA Sec. 480(d) is independent; he

- was born before January 1, 1994,
- is married as of the date he applies,
- will be a graduate or professional student when the award year starts,
- is currently serving on active duty for purposes other than training,
- is a veteran of the U.S. Armed Forces,
- has dependents other than a spouse,
- was an orphan, foster child, or ward/dependent of the court at any time since the age of 13,
- is an emancipated minor or in legal guardianship or was when he reached the age of majority in his state, or
- was determined at any time since July 1, 2016, to be an unaccompanied youth who was homeless or self-supporting and at risk of being homeless.

STEPS 2 & 3

Untaxed income not reported on the FAFSA and dependency status

Dependent benefits example

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.