

# 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 for the form and one page of worksheets for calculating additional amounts that are entered in Steps 2 and 4.

Once the FAFSA is submitted it is considered a “snapshot” of the family’s finances 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 advice on filling out the FAFSA on our website for students at [www.studentaid.ed.gov](http://www.studentaid.ed.gov). Note that where parents are mentioned it refers to the parents of dependent students.

## STEP ONE: GENERAL STUDENT INFORMATION

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

- **Questions 1–3** ask for the student’s name. The name, along with other identifying information, is used for several data matches. Because the U.S. Department of Education (ED) matches the student’s name and Social Security Number (SSN) with the Social Security Administration (SSA), the name here should match the one in the SSA’s records.
- **Questions 4–7** ask for the student’s permanent mailing address. This cannot be the school address, with one exception: an incarcerated student may use his college’s administrative address and include with the FAFSA a letter from the school indicating that he is incarcerated and is using the school’s address.

## FAFSA Steps 1–7

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

## Completing the FAFSA

Information for students about completing the FAFSA is posted on the Web at [www.studentaid.ed.gov/completfafsa](http://www.studentaid.ed.gov/completfafsa)

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/doc0013\\_bodyoftext.html](http://www.ifap.ed.gov/fafsa/doc0013_bodyoftext.html)

## STEP 1

Questions 4–20  
Student information**The SSN and Pacific Island residents**

A student from the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau is not required to have an SSN. Previously these students mailed their FAFSA to a separate address; now they send it to the same address as all other students. The CPS will assign an identification number to students 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.

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

The student should be careful when entering his SSN; although it can be corrected after the FAFSA is processed, the number originally entered will always be used as the student's ID, and it is likely to cause confusion and extra work for the financial aid administrator if it doesn't match the student's SSN. While not required, the student can solve the confusion by filing a new original FAFSA using the correct SSN.

- **Question 13** asks for the student's e-mail address. If the student provides an e-mail address, he should receive an e-mail link to his online SAR data within one to three days. The Department will also use this e-mail address to correspond with the student regarding his application and PIN.
- **Question 14** asks about U.S. citizenship and eligible noncitizenship. Examples of noncitizenship categories are given in the FAFSA instructions, and a detailed discussion of citizenship issues can be found in *Volume 1: Student Eligibility*. Only a citizen or an eligible noncitizen is eligible for aid from the FSA programs; however, a student should still submit the FAFSA if she might be eligible for aid from institutional, state, or private sources that do not require U.S. citizenship.
- **Questions 16 and 17** ask about the student's marital status "as of today"—the day the application is completed. Marital status cannot be projected or updated during the award year.
- **Questions 18–20** ask for the student's state and date of legal residence. This information is used in the EFC calculation to determine the appropriate allowance for state and other taxes. 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 that state, while the state eligibility for a person answering "No" will depend on the date reported in question 20 and the state's requirements.
- **Question 24** asks for the student's grade level at the start of the school year. 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.

- **Question 26** asks whether the student will have a first bachelor's degree before July 1, 2005, because eligibility for Pell grants and Federal Supplemental Educational Opportunity Grants (FSEOGs) is almost exclusively restricted to students who have not yet received bachelor's degrees. See "Pell Grants" in Chapter 6 of *Volume 1: Student Eligibility* for guidance on degrees from unaccredited and foreign schools.
- **Questions 27 and 28** ask the student to indicate what types of aid, in addition to grants, she is interested in receiving. This will help the school in packaging her award. If she isn't sure about wanting loans or work-study, she should answer "Yes" 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, this question should be answered "Yes."
- **Questions 29 and 30** ask for the highest level of school completed by the student's father and mother. Some state agencies use this information to award grants and scholarships. "Father" and "mother" are defined here as the student's birth or adoptive parents but not stepparents, guardians, or foster parents. Note that this definition is unique to these questions—all others use the definition on page 7 of the FAFSA.
- **Question 31** asks whether the student has been convicted of possessing or selling illegal drugs. Students who have been convicted 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 (many states and schools use the data supplied by the FAFSA to award their aid).

Students who answer "Yes" to question 31 and fill out a paper original FAFSA will receive a worksheet with their SAR to determine whether the federal or state conviction affects their eligibility for federal student aid. If the date the student regains eligibility falls before July 1, 2005, 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, 2005, and June 30, 2006, 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, 2006, then the student's response will remain a "3." The student will not be eligible for federal aid during the award year unless he completes a qualified drug rehabilitation program, though he might be eligible for state or school aid. See *Volume 1: Student Eligibility* for more information on drug convictions and eligibility.

# STEP 1

## Questions 24–31 Student information

### Undergraduate student definition

A student who is enrolled in a program of study that usually does not exceed four (and can be up to five) academic years in length and that is designed to lead to a degree or certificate at or below the baccalaureate level.

34 CFR 674.2, 675.2, 676.2, 690.2, and 682.200(b)

### Graduate student definition and mixed-degree programs

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

34 CFR 674.2, 675.2, and 682.200(b).

Some schools offer mixed-degree programs. For example, a student might earn a bachelor's degree and a master's degree in five years of coursework. The school determines at what point after three years' worth of full-time study the student ceases to be an undergraduate and becomes a graduate student, which of course affects his dependency status and loan limits, among other things. This determination must be consistent for all students in a program.

# STEP 1

## Question 31 Drug convictions

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### Income and assets citations

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

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

A student who leaves question 31 blank cannot be paid FSA funds 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 2004 but is married at the time the application is completed, the applicant also needs to provide income and asset information for the new spouse. If the student or the student’s parent was married in 2004 but is now separated or divorced, or the spouse has died, the student or parent doesn’t provide income and asset information for his spouse, even though that information may be on the 2004 tax forms.

The FAFSA asks for income and taxes paid for the “base year,” which for 2005-2006 applicants is the 2004 tax year, so the questions refer to lines on 2004 IRS tax forms. Data from the completed tax year is a good predictor of the family’s financial situation for the current year. If 2004 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 assets. Applicants only report the net worth of assets, instead of reporting the value and debt. They should report asset amounts **as of the date the application is completed.**

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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 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.

- **Questions 32–34 (70–72 for parents)** ask the student if she has completed a 2004 tax return yet, which return was or will be filed, and whether the student was eligible to file a 1040A or 1040EZ. The CPS uses this information in part to identify if the student is eligible for the simplified needs test or the auto zero EFC (see margin note on p. 19).
- **INCOME: Questions 35–39 (73–77 for parents)** ask the student and spouse for adjusted gross income (AGI) and other tax information. Dependent students report these items for their parents. Each question gives the line reference to the 2004 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 the following page can help students estimate their tax information.

Students or parents who filed a joint return but are now divorced, separated, or widowed won't be able to copy the information from the tax forms. Instead, they must figure out how much of the income and taxes paid is attributable to them. For more on this calculation, see "Using a Joint Return to Figure Individual AGI and Taxes Paid" in chapter 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 76–77 (parents). The W-2 form and other records should be used to determine these amounts. Income earned from work is normally used to calculate an allowance for the additional costs incurred for working families; however, if no tax return was filed, it will also be used in place of AGI. It 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 2004.

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

## Worksheets A, B, and C

Untaxed income items are grouped on the worksheets on the back of the FAFSA. The applicant doesn't submit the worksheets but reports their totals in questions 40–42 (student/spouse) and 78–80 (parents). The totals from Worksheets A and B are added to income while the total from Worksheet C is subtracted.

- **Worksheet A (questions 40 and 78)** asks for several types of untaxed income and benefits that are typically associated with the neediest households; this worksheet helps aid offices to identify applicants who might have 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

# STEP 2

## Questions 35–39 and 73–77 Income

### Fiscal year return example

Owen's parents file a fiscal year tax return. They start their fiscal year in September. The return they filed for the fiscal year starting in September 2003 includes eight months in 2004. The return they'll file for the fiscal year starting in September 2004 only includes four months of 2004 and won't be completed until after August 2005. Therefore, they should use the information from the tax return for the fiscal year that started in September 2003.

### 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 EIC 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 73  
Parent(s)*

Wages, salaries, tips, etc.	\$ _____ .00	\$ _____ .00
Interest income	+ _____ .00	+ _____ .00
Dividends	+ _____ .00	+ _____ .00
Other taxable income (alimony received, business and farm income, capital gains, pensions, annuities, rents, unemployment compensation, Social Security, Railroad Retirement, and all other taxable income)	+ _____ .00	+ _____ .00
<b>Add</b> 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 73:

\$ _____ .00	\$ _____ .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 on behalf of 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 pp. 17-18) 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).

proportional distribution calculations. See “Using a joint return to figure individual AGI and taxes paid” in chapter 4.

**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, though a form of welfare, 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 (questions 41 and 79)** collects information about other untaxed income and benefits. Some forms of income are reported on the tax form even though they aren’t taxed. Again, a student who hasn’t filed will have to estimate these amounts, and students or parents may need to separate information from a joint return.

**Worksheet B items that are answered from tax forms are:**

- ➔ **Payments to tax-deferred or sheltered pension and savings plans (paid directly or withheld from earnings).** This includes untaxed portions of 401(k) and 403(b) plans. These types of payments are listed in boxes 12a through 12d of the W-2 and will have one of the following codes: D, E, F, G, H, or S. Note that employer contributions to these plans shouldn’t be reported as an untaxed benefit.
- ➔ **Deductible IRA or Keogh payments.** If the student, spouse, or parent can exclude from taxation payments to an IRA or Keogh, those payments are reported as untaxed income. These amounts appear on the tax return.
- ➔ **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 43 of Form 2555 or line 18 of Form 2555EZ) on Worksheet B.
- ➔ **Untaxed IRA distributions and pension payments.** A tax filer determines how much of his IRA distribution or pension

# STEP 2

## Worksheet A Untaxed income

### 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 nonelective contributions should not be counted in the need analysis; finally, because no employer is required to provide information in box 14, it is unlikely that employers will be consistent in what they report there.

There are exceptions though. For example, clergy parsonage allowances are often reported in box 14, though as stated above, employers aren’t obliged to do that. Whether such allowances appear in box 14 or not, they should be included in the appropriate space on Worksheet B of the FAFSA.

If you are aware that a box 14 item belongs on Worksheet B (i.e., if it represents discretionary income), you should include it.

# STEP 2

## Worksheet B Untaxed income

### Combat pay

For students or parents whose W-2 forms show combat pay, any untaxed portion should appear on Worksheet B, and the full amount must be counted as income earned from work.

For those who do not file a tax return, their combat pay should only appear as income earned from work—none of it should be on Worksheet B. 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.

### 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.

payment is taxable when he completes his tax return. The applicant needs to report the untaxed portion on the FAFSA, and Worksheet B explains how to determine that amount using 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 2004 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 gives him grocery money or 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 the only one on the lease, the rent paid counts as cash support. Because the student's name is on the lease, he is responsible for the payments that his friend is making on his behalf. Note that the column for parents' information is marked out for this line item—only the student reports this information.

**Tips on reporting benefits:**

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

Benefits the head of household receives on behalf of anyone included in his FAFSA household size are income to him. However, if the person (e.g., a grandmother) receives benefits in her name, they don't count as income to the head of household. Such a person is not included in the household size if the 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 must 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.** Per capita payments received in 2004 from the Per Capita Act or the Distribution of Judgment Funds Act should not be reported unless they exceed \$2,000. Any amount over that 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.
- ➔ **In-kind support.** In-kind support is other than money, such as free food or housing. If friends or relatives give the student food or allow the student to live with them rent-free, that support isn't included as untaxed income, though 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

**STEP 2****Worksheet B**  
**Untaxed income****Dependent benefits example**

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

Stanislaw's uncle Yvor lives with him 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.

## 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.

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 would otherwise pay, the amount counts as cash support. See examples in the margin.

- **Worksheet C (questions 42 and 80)** collects information on items that are included in taxable income on the tax return but are excluded from income when calculating the EFC. The applicant doesn't subtract these from the AGI reported on the form but lists them separately on Worksheet C. The total from the worksheet is then reported on the FAFSA. The CPS subtracts that total from the AGI. Having the AGI from the tax return listed on the application makes verification easier.

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

- ➔ **Education tax credits.** These are the Hope and Lifetime Learning tax credits; the application 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.** Any child support payments made during 2004 because of divorce, separation, or legal requirement by the student, spouse, or parent whose income is reported on the FAFSA should be reported on Worksheet C. However, don't include child support paid for a child included in the household size reported on the FAFSA.

- **ASSETS: Questions 43–45 (student and spouse) and 81–83 (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; some examples are college savings plans, Coverdell savings accounts, real estate, trust funds, mutual funds, money-market funds, stocks, bonds, commodities, and precious metals. If the asset isn't a business or investment farm, it should be reported as an investment.

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

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.

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

- ➔ **Prepaid tuition plans.** As discussed on page 20, these plans allow units of tuition to be bought before the student attends college. Distributions from a prepaid tuition plan are applied to the beneficiary's higher education expenses and reduce her cost of attendance unless the expenses covered by the distribution must be part of the COA for accounting purposes. In those cases the amount of the distribution is counted as a resource and estimated financial assistance. For the FAFSA, the investment value of prepaid tuition plans is not reported as an asset of either the holder or the beneficiary.
- ➔ **Pensions and whole life insurance.** Pensions aren't counted as assets for application purposes. Of course, when the income from a pension is distributed to the beneficiary, the income must be reported. The cash value or built-up equity of a life insurance policy (often referred to as a whole-life policy) isn't reported as an asset.

# STEP 2

## Questions 43–45 and 81–83 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 family 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**

At times a student or parent will claim that rental properties are a business. Generally, such properties must instead be reported as real estate. To be reported as a business, a rental property would have to be part of a formally recognized business. Usually such a business would provide additional services, such as regular cleaning, linen, or maid service.

# STEP 2

## Qualified tuition programs

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### Education savings accounts

The value of Coverdell education savings accounts (which are different from 529 savings plans) should be reported on the FAFSA as an asset of the account owner.

### Qualified tuition programs (QTPs) or 529 plans

States, their agencies, and some colleges sponsor plans known in the IRS tax code as qualified tuition programs. Because these plans are covered in section 529 of the tax code, they are also called section 529 plans. 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. The value of a prepaid tuition plan is not counted as an asset; rather, distributions are treated as a resource or a reduction in the COA; see "Excluded assets" on p. 19. The IRS does not tax distributions from plans used for higher education expenses.

*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. The value of a college savings plan should be treated as an asset of the owner (not the beneficiary because the owner can change the beneficiary at any time) and will be reported on the FAFSA if the owner's assets are reported.

Distributions from college savings plans are not considered taxable income, so they will not appear in the next year's AGI. They also should not be treated as untaxed income or as resources.

### Reporting "take-back" mortgages

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

## Reporting trust funds

Trust funds in the name of a student, spouse, or parent should be reported as that person's asset on the application, 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, the student would report the interest he received and report as a parental asset the present value of the 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, including the accumulated interest.

### 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 asset

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

# STEP 3

## Questions 48–54 Dependency status

### Criteria for independence

For the 2005–2006 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, 1982
- is a graduate or professional student
- is married as of the date he applies
- is an orphan or is or was until 18 a ward/dependent of the court
- is a veteran of the U.S. armed forces
- has dependents other than a spouse

➔ **Excluded assets for Native American students.** The law explicitly excludes reporting any property received under the Per Capita Act or the Distribution of Judgment Funds Act (25 United States Code 1401, et seq.), the Alaska Native Claims Settlement Act (43 United States Code 1601, et seq.), or the Maine Indian Claims Settlement Act (25 United States Code 1721, et seq.).

- **Questions 46 and 47** ask about the student’s veterans education benefits and for how many months they will be received. If students receive veterans education benefits, they must report the amount of monthly benefits they expect to receive during the school year (from July 1, 2005 through June 30, 2006). 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 are counted as a resource or estimated financial assistance when packaging campus-based aid or Stafford/PLUS loans. (See *Volume 3: Calculating Awards and Packaging* for exceptions and further details on packaging FSA funds with VA educational benefits.)

### STEP THREE: DEPENDENCY STATUS

**Purpose:** Over the years most institutional financial aid policies have been based on the premise that the family is the first source of the student’s support. The law governing the FSA programs has followed the same principle, and it 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.)

- **Question 49 (graduate or professional study).** The FAFSA asks the student if she will be working on a master’s, doctorate, or graduate certificate program in the school year. A student who answers “Yes” to this question is a graduate or professional student and is independent for purposes of Title IV aid.

Graduate and professional students aren’t eligible for Pell grants, so a student who incorrectly answers “Yes” to this question must submit a correction before he can get a Pell grant.

# STEP 3

## Questions 48–54 Dependency status

Students should fill out the FAFSA based on their 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.

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

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.

- **Questions 51–52 (children and legal dependents).** Students who have legal dependents are independent. Legal dependents comprise children (including those who will be born before the end of the award year) of the student who will receive more than half their support from the student and other persons (except a spouse) who will both live with and receive more than half their support from the student for the coming award year. The same criteria apply to household size.
- **Question 53 (orphan or ward of the court).** The student is an **orphan** if both parents are dead and the student doesn’t have an adoptive parent. Such a student is considered an orphan even if she has a legal guardian.

A student qualifies as a **ward of the court** if the court has assumed custody of 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.

- **Question 54 (veteran of the U.S. Armed Forces).** For FSA eligibility, veterans are those who have been in active service (which includes basic training) in the U.S. Army, Navy, Air Force, Marines, or Coast Guard and were released under a condition other than “dishonorable.” There is no minimum amount of

### 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.

### 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. Allan cannot consider Cathy a dependent since the \$4,000 he provides is not more than half of her total support of \$9,400.

# STEP 3

## Dependency status and overrides

### Early exit cadets

Students who attend a 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 the early exit cadet meets one of the other criteria for independence, then no resolution is required. If, however, an early exit cadet meets no other independence criteria, the school will have to perform a dependency override to make the student independent. Of course, the school must have appropriate documentation of the student's situation.

### 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 her school has proof of 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.

time the student has to 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, 2006. 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 an aid administrator to make dependency overrides on a **case-by-case** basis for students with unusual circumstances. If the administrator 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 more information 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 her parents, 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 financial aid office 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 aid administrator 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 aid administrator marks the oval for an override, labeled "D/O," in the "School Use Only" box, fills in the school's federal school code, and signs. A separate letter attached to the application in lieu of making the override is **not** acceptable.

If the student has already applied, the FAA can use FAA Access to CPS Online to authorize or cancel an override; overrides cannot be done on the SAR.

### FAFSA School Use Only Box

<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"/>
FAA Signature	
<input type="text"/>	

# STEP 3

## Dependency overrides

### 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 found in 479A and is copied in toto in a margin note in the last chapter of this guide.

### Overrides performed at another school

When a school performs an override for a student, any other schools also listed on that transaction will not receive the resulting ISIR. But if the student then adds your school to that transaction, you will receive an ISIR with the other school's override. You cannot simply accept that override; as noted in the text on this page, overrides do not carry over from one school to another, and you will have to gather the necessary documentation if you decide to make the student independent.

# STEP 3

## Who is a parent or has dependents

### Who Counts as a Parent?

If the applicant answers “No” to questions 48–54, 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 one of the primary means of support for her child is the benefit she receives for the child. If a student’s boyfriend provides more than 50% support for her child, and if he is also a student and the father of the child, then both he and the student would be able to count the child as a dependent and in their household size, and both would be independent.

# STEP 3

## Veteran match

### Veteran match (for question 54)

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 and 3, the CPS now assumes that the answer to the veteran question is “Yes” instead of “No.” Also, 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 pp. B-27 through B-32 of the The ISIR Guide for 2005–2006.

#### 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 or will be 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 he is still on active duty, he can obtain a letter from his commanding officer affirming that he will be discharged before June 30, 2006. If these documents show that he is or will be a veteran, he can receive aid as an independent student. A dependency override is no longer necessary because, as noted above, the answer to the veteran question is now assumed to be “Yes” instead of “No.” 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 provide parent information if he is a dependent student.

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 provide parent data, correct any problem with the VA, or resolve the veteran question by providing documentation showing she is a veteran or will be one by June 30, 2006.

#### Active duty (match flag 4)

If the student is currently on active duty, he isn’t a veteran yet, but if his active duty status will end by June 30, 2006, he counts as a veteran for dependency status. Because he might be a veteran later in the year, the CPS assumes that the answer to the veteran question is “Yes,” though before the school can disburse aid, the student must provide documentation, such as a letter from a commanding officer, that he will be released from active duty by June 30, 2006. If he is already independent by one of the other criteria, he doesn’t have to resolve this situation.

# STEP 4

## Questions 55–83 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.

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

**Purpose:** Questions 55–69 collect information about the student's parents and their household. Questions 70–83 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.

■ **Questions 57–64 (parents' personal information)** The FAFSA asks for parents' social security numbers, 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 they don't match 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, the student should enter 000-00-0000 to prevent or remove a reject code.

■ **Question 65 (household size)** The household size 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, 2005, through June 30, 2006. 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.

## 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, 2004, must be reported even if the parent and stepparent were not married until after 2004. 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.

# STEP 5

## Questions 84–85 Student household

### Number in college

HEA Sec. 474(b)(3)

### Death, separation, divorce

HEA Sec. 475(f)

### Divorce example

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

### 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.

→ **Other persons** who at the time of application live with and receive more than half their support from the student's parent(s) and will continue to receive more than half support for the entire award year.

■ **Question 66 (number in college)** The EFC calculation accounts for the expense of having other students in the household. The applicant should **always** be included in the number in college, but the parents are not included. Others who count in the household size are counted in the number in college if they are or will be enrolled at least half time in an eligible degree or certificate program during the award year at a school eligible for any of the Title IV (FSA) programs, and if they 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.

■ **Questions 67–69** The parents' state of residence is used in the federal need analysis. Parents who do not live in the U.S. should enter "FC" for Question 67.

■ **Questions 70–83 (tax forms filed by parents, income, and assets)** 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: HOUSEHOLD SIZE AND NUMBER IN COLLEGE (INDEPENDENT STUDENTS ONLY)

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

■ **Question 84 (student's household size).** The following persons are included in the household size of an independent student:

→ **The student and his or her spouse**, unless the spouse has died or is not living in the household 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, 2005, through June 30, 2006. 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. As noted for dependent students, foster children do not count in household size.

→ **Other persons** who at the time of applying live with and receive more than half their support from the student and will continue to get more than half support for the entire award year.

## STEP 6

Questions 86–98  
School information &  
enrollment status

- **Question 85 (number in college).** The student should **always** be included in the number in college. Other members of the household are counted if they are or will be enrolled at least half time in a degree or certificate program during the award year at a Title IV-eligible school and if they 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. (See *Volume 1: Student Eligibility* for enrollment status requirements.)

## STEP SIX: SCHOOL INFORMATION

**Purpose:** These questions collect information about which postsecondary schools the student wants to receive his FAFSA information. He can list up to six schools to which ED will make his information available.

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

If the student wants information to be available to more than six schools, she can use her SAR or Corrections on the Web to change the schools listed. Note that the CPS will send data to no more than six schools at a time for one student. Chapter 5 describes how a student can add or change schools on the list.

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

- **Question 98** asks whether at the start of the academic year the student plans to attend full time, three-quarter time, half time, less than half time, or isn't sure. This information will help the college package the student's aid. A student who is applying to more than one school should provide the enrollment status for the school he is most likely to attend.

# STEP 7

## Questions 99–103 Signatures

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### 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. These imaged versions of the original signed document are valid and may be kept in the student's file.

### STEP SEVEN: SIGNATURE REQUIREMENTS

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

- **Questions 99–100** 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 the FSA award only on educational expenses and affirms that he is not in arrears on federal loans or grants. If the student is dependent, one parent whose information is reported on the FAFSA must also provide a signature.
- **Questions 101–103** 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). The preparer must also sign the form.

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

### Substitutes for a parent's signature

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

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

The proxy signature serves as a mechanism to get the application through the processing system. 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 should submit corrections through FAA Access.

**Signature Requirements: Application and Verification for all FSA programs**

	<i>Application (FAFSA, FAFSA on the Web, FAA Access to CPS Online)</i>	<i>IRS Forms 1040 or other form submitted for verification</i>	<i>Verification Worksheet</i>
<b>Student</b>	Must sign statement that data are accurate and other conditions are met (on paper FAFSA, echo document, or signature page or with 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>Parent(s) (if student is dependent)</b>	One parent must sign statement that data are accurate (on paper FAFSA, echo document, or signature page or with PIN).	Tax return must be signed by parent, or the tax preparer must provide his name and SSN, EIN, or PTIN.	One parent must sign
<b>Aid Administrator</b>	Must certify if overriding dependency status (can't be done on FAFSA on the Web).		

**Signature Requirements for Changes \***

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

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

## Signatures for electronic applications

### FAA Access to CPS Online

If you enter a student's application through FAA Access to CPS Online, you must obtain original or "wet" signatures on a completed paper FAFSA or on the printed "echo document," 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 photocopies for verification documents; see p. 80.)

### FAFSA on the Web

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

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

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

Schools and states receive ISIRs for rejected records. A student's reject 16 SAR and her ISIR will reflect the data that she provided on the application; however, the CPS won't calculate an EFC for the student or do any database matches until it receives a signed signature page, a signed SAR, or an electronic signature. A school can also collect the required signatures at the school, either on the SAR or a document that has the required certification statements (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.