

Because the effectiveness of the federal student financial aid programs depends on the accuracy of the data students report, schools must verify information provided by students the CPS selects. In doing so, schools must follow the procedures established by regulation. In this chapter, we discuss the verification requirements and process.

GENERAL REQUIREMENTS

The verification requirements explained in this chapter apply to all applicants for most SFA programs. Verification isn't required for the Leveraging Educational Assistance Partnership (LEAP) Program (formerly the State Student Incentive Grant Program), unless the school is certain that a student's state grant contains federal funds, or for the Robert C. Byrd Honors Scholarship Program. For the Direct Loan and FFEL programs, verification isn't required for unsubsidized student loans or for PLUS Loans. However, a student can't avoid the verification requirements by choosing to borrow an unsubsidized loan instead of a subsidized loan. If a student selected for verification attempts to do this, the school is to continue the verification process anyway. Also, verification is not required for Federal Stafford Loans received for study at eligible foreign schools.

Required Policies

The school must have written policies on the following verification issues:

- deadlines for students to submit documentation and consequences of the failure to meet those deadlines,
- method of notifying students of award changes resulting from verification,
- required correction procedures for students,
- means of publicizing requirements and procedures, and
- standard procedures for referring overpayment cases to the Department (see Chapter 3 of this publication for more information on handling overpayments).

Verification Regulations Cite

34 CFR 668, Subpart E

Required Policies Cite

34 CFR 668.53

Additionally, the school must give each applicant a written account of the following information:

- **Documentation requirements.** A clear explanation of the documentation needed to satisfy the verification requirements;
- **Student responsibilities.** An explanation of the student's responsibilities with respect to the verification requirements, including the deadlines for completing any actions required, the consequences of missing such deadlines, and required correction procedures; and
- **Notification methods.** The means by which the school will notify a student if his or her award changes as a result of verification, and the time frame for such notification.

Quality Assurance Program

Under the Title IV Quality Assurance (QA) Program, participating schools develop and implement a quality improvement approach to SFA program administration and delivery. QA schools are exempt from certain administrative and procedural requirements, including certain verification requirements. The QA Program methodology provides QA schools with an alternative management approach for developing and refining their own systems for verifying institutional and student financial aid application data. Participating schools should refer to the *QA Workbook* for verification exemptions. Note that all current requirements for disbursement, updating, and deadlines—and the consequences for failing to provide requested documents—still apply to QA schools.

APPLICATIONS TO BE VERIFIED

When verification is required for an application, that application is said to have been “selected” for verification. Applications are selected either by the CPS or by the school. Under certain circumstances, a selected application may be excluded from required verification (see “30% Verification Option” and “Verification Exclusions” later in this chapter).

The output document shows whether the student's application has been selected by the CPS. The Verification Tracking Flag, which is in the FAA Information Section with the match flags, will have a value if the application has been selected for verification. On the SAR, the CPS prints an asterisk next to the EFC to identify applications selected for verification. The SAR also has a comment notifying the student that the application has been selected for verification.

The number or letter in the Verification Tracking Flag is the verification selection code. These codes (A-C 1-32) are numbered in order of importance. If the school is verifying no more than 30% of the total number of its federal student aid applicants, it might want to select those applications with higher priority verification selection codes. (See “30% Verification Option”.) For example, reasons 2, 5, 8,

30% Verification Examples

Bennet College has 1000 applicants for federal student aid. During processing, the CPS selected 475 of those students' applications for verification. Bennet also selects 100 other applications, based on its own criteria. To meet the 30% level, Bennet only needs to verify 300 applications, not all 575 that are selected. However, the 100 Bennet selected don't count toward meeting the 30% requirement, so Bennet must verify at least 300 of the applications the CPS selected for verification.

Brust Conservatory has 1000 applicants for federal student aid. During processing, the CPS selected 289 of those students' applications for verification. Brust must verify all 289 applications because that number isn't more than 30% of the total applicants. The school isn't required to verify more applications to reach the 30% level; the 30% verification option is not a quota.

Benoit Institute has 1000 applicants for federal student aid. During processing, the CPS selected 300 of those students' applications for verification. Also, the school identified 40 additional applications as having conflicting information. Benoit must resolve the conflicting information for these 40 students. However, because the resolution of conflicting information is separate from verification, these 40 applications don't count toward the 30% level. Benoit must also verify all 300 applications that were selected for verification, because this number isn't more than 30% of the total applicants for federal student aid.

and 10 have greater significance than reasons 13, 15, 19, and 24. Selecting applications with higher priority numbers is a suggestion, not a requirement.

30% Verification Option Cite
34 CFR 668.54(a)(2)

A school may also select applications for verification. For applications a school selects, the school decides which items it wants to verify. The school can choose not to verify items that must be verified on CPS-selected applications and can also choose to verify items other than those required by the Department. However, all other verification requirements (such as deadlines and allowable interim disbursement rules, etc.) apply equally to all students who are being verified, regardless of whether the CPS or the school selected the application for verification.

30% Verification Option

Generally, a school must verify all applications the CPS selects for verification; however, the Department doesn't require a school to verify more than 30% of its total number of applicants for federal student assistance. If more than 30% of the school's applicants have been selected by the CPS for verification, the school may choose to verify all the selected applications, but the Department doesn't require it. Instead, the school can choose to stop verifying once 30% of its applicants have been verified (applications a school selects and applications with conflicting information don't count toward the 30% level). If the total number of selected applications is less than 30% of the school's total number of applicants for federal student aid, the school must verify **all** selected applications.

Definitions

Many schools have requested interpretation from the Department regarding the definitions of "applicant" and "applicant pool." However, the Department does not define these terms. Each school must

Verification Exclusions Cite
34 CFR 668.54(b)

Incomplete Verification due to Death Cite
34 CFR 668.60(e)

Immigrant Example

Hector arrives in the United States in February 2000, and begins attending Guerrero University in September 2000. His 2000-2001 application is selected for verification. Guerrero determines that it doesn't have to verify Hector's application because he arrived during the 2000 calendar year.

Spouse Unavailable Example

Ursula is attending Lem Community College, and her application is selected for verification. She provided her husband's information on the application, but now explains that her husband has recently moved out, and she can't locate him. Ursula also gives Lem some documents to show that she's tried to locate her husband. Lem determines that Ursula doesn't need to provide verification of her husband's tax and income information, but still needs to verify her own information.

develop its definitions and apply them **consistently**. An applicant may be defined as any student who applies for federal financial aid or, more narrowly, as a student who is eligible to receive an award. Further, schools could define the total number of applicants for federal student assistance as the total number of applications received (regardless of whether the students are enrolled), as the total number of applications received from enrolled students, or as the total number of applications received from enrolled students who are eligible to receive an award. When the school uses a narrow pool and selects 30%, the students the school verifies must come from the pool designated and not from a broader pool.

Schools also must develop their own policies for determining the number of applications that constitutes 30% of their school's total applications. Schools must consistently adhere to and apply these policies, ensuring that selected applications are properly verified.

Verification Exclusions

A selected application may be exempt from some or all of the verification requirements due to certain unusual circumstances. Except in the case of the student's death, however, none of these verification exclusions excuses the school from the requirement to resolve conflicting information.

Death

If the school makes an interim disbursement during the verification process, and the student dies before verification is completed, the school doesn't have to continue verification to justify the first disbursement. In such a case, the school can't make any additional disbursements to any of the student's beneficiaries, except for FWS funds already earned. Also, the school cannot originate a Direct Loan, certify a Federal Stafford Loan, or deliver proceeds from either one for the student's beneficiaries.

Incarceration

A selected application does not have to be verified if the student is in jail or prison at the time of verification.

Student is a recent immigrant

A selected application does not have to be verified if the student is an immigrant who arrived in the United States during calendar years 2000 or 2001.

Spouse unavailable

A school isn't required to verify spouse information (or to obtain the appropriate signature for verification purposes) if any of the following conditions apply:

- The spouse is deceased or mentally or physically incapacitated.
- The spouse is residing in a country other than the United States and can't be contacted by normal means.

- The spouse can't be located because his or her address is unknown, and the student can't obtain it.

The school should document the basis for this exclusion in the student's file. This exclusion doesn't affect any other part of required verification; the selected application must still be verified according to all other requirements.

Parents unavailable

A school isn't required to verify a dependent student's application if any of the following conditions apply:

- The student's parents are deceased or mentally or physically incapacitated.⁸
- The parents are residing in a country other than the United States and can't be contacted by normal means.
- The parents can't be located because their address is unknown, and the student can't obtain it.

The school should document the basis for this exclusion in the student's file. If only one parent of a dependent student meets one of these conditions, the student and the remaining responsible parent are still subject to all verification requirements.

Verification completed at a previously attended school

A school isn't required to verify the selected application of a student who completed verification for the current award year at another school before transferring. To document a student's eligibility for this exclusion, a school must obtain a letter from the school that completed the verification. The letter must include

- a statement that the student's application data have been verified,
- the transaction number of the verified application, **and**
- if relevant, the reasons why the school was not required to recalculate the student's EFC (for example, the application errors may have been within the allowable tolerance—see "Verification tolerance," page 201).

In general, a financial aid transcript alone is **not** acceptable documentation for allowing a student this exclusion. However, if the school uses a financial aid transcript form that specifically asks for the necessary information, the transcript would be acceptable documentation as long as the other school provided all the information.

⁸ Note that if both parents are dead, the student is an orphan and so is an independent student. If the parents die after the student has applied, the student must update his or her dependency status (see Chapter 9).

Selection after Disbursement Example

Owen is attending Guerrero University. His application isn't selected for verification, and he receives aid in the fall. In December, Owen submits an address change on his SAR. That transaction is selected for verification. The FAA at Guerrero tells Owen he needs to submit verification documents if he wants his aid for the spring, but Owen doesn't turn in the documents. Owen doesn't have to repay the aid he got in the fall, but Guerrero cancels his aid package for the spring. If Owen does turn in the documents and complete verification before the year ends, Guerrero can give him the aid for the spring.

Pacific Island residency status

A school isn't required to verify the selected application of a student who is either

- a legal resident of Guam, American Samoa, or the Commonwealth of the Northern Mariana Islands (to qualify for this exclusion, a dependent student's parents must also be legal residents of one of these former territories)
- a citizen of the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau (to qualify for this exclusion, a dependent student's parents must also be citizens of one of these former territories)

To document the basis for this exclusion, the school should note the permanent mailing address in the student's file.

No funds disbursed

If a student won't receive federal student aid for reasons other than his or her failure to complete verification, the school isn't required to complete verification. This category includes students ineligible for federal student aid or those who withdraw without receiving aid.

Required Verification Items Cite

34 CFR 668.56(a)

Selection after Disbursement

If a student or school submits corrections, the student's application may be selected for verification on that subsequent transaction. In some cases, the student may already have been paid based on the previous, unselected, output document. Because the student was eligible for that disbursement when it was made, the disbursement doesn't need to be repaid if verification isn't completed. However, the school can't make subsequent disbursements until the student's application is verified.

REQUIRED VERIFICATION ITEMS

For applications selected by the CPS for verification, a school must verify five major data elements:

- household size,
- number enrolled in college,
- adjusted gross income (AGI),
- U.S. income tax paid, and
- certain untaxed income and benefits.

In addition to verifying these required application data items for CPS-selected students, the school can choose to verify any other application items, requiring any reasonable documentation, in accordance with consistently applied institutional policies and

Acceptable Documentation

	<i>Verification Worksheet & Tax Return(s)</i>	<i>Other Documentation in lieu of Worksheet or Tax Return (see the text for details)</i>
<i>Household Size</i>		Signed Statement
<i>Number Enrolled</i>		Signed Statement and/or Institutional Certification
<i>AGI & Taxes Paid</i>		IRS Letter 1722, RTFTP, Form W-2, Form 4868, and/or Signed Statement
<i>Untaxed Income & Benefits</i>		Official Agency Documentation and/or Signed Statement

procedures. The school decides which students must provide documentation for any additional data elements and what constitutes acceptable documentation.

General Documentation Requirements

For each required verification item, specific documentation is required, as described in the following sections. The school has the authority to **require** students to provide such documentation. To help schools, the Department has developed verification worksheets that collect most of the necessary documentation. You may reproduce the 2000-2001 worksheets without limitation, and they are available through a variety of sources: through EDEXpress; from the Department's IFAP web site at <http://ifap.ed.gov>; and later in this chapter.

When a student completes a verification worksheet and attaches the appropriate tax forms or alternative documents (discussed later), the school will usually have enough data to complete the verification process. Using a verification worksheet, therefore, simplifies the task of collecting and examining a student's documentation.

However, use of the federal worksheets isn't required. The school may use its own worksheet, or no worksheet at all. The school may require other documentation in addition to, or instead of, a completed verification worksheet. The chart on this page shows other forms of acceptable documentation for each required verification item. Later in this chapter, these other documents are discussed in detail.

Timing of Signature

Any required signatures, such as signatures on worksheets or on copies of tax returns, must be collected at the time of verification, during the applicable award year. Signatures can't be collected after the verification deadline for that award year.

Using a Verification Worksheet

A school that requires its students to complete verification worksheets must provide the worksheets to its students. Upon completing the appropriate worksheet and attaching a copy of the relevant income tax returns or alternative documents, students should submit the documents to the school, not to the Department or to the FAFSA processor through which they applied. The school should make sure that all required worksheet sections are completed and appropriately signed and that the relevant tax returns or alternative documents are attached. As explained later in this section, copies (such as photocopies, faxes, digital images, etc.) of worksheets, tax returns, or other documentation are acceptable. Unless specifically noted in this chapter, an original signature—that is, a handwritten pen-and-ink signature that has not been duplicated—is *not* required. After checking the documentation against the student’s application data, the school may either disburse the student’s award or make the necessary corrections and updates. (See “After Documentation is Complete,” page 201.)

*See Separate PDF FILE for
the Electronic Version of the
Verification Worksheet
for Dependent Students*

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Verification Worksheet
for Independent Students*

Household Size

A student's household size generally includes any persons who are dependents of, or who receive more than half of their support from, the student's household. If the student completed a verification worksheet, no further documentation for this item is required. However, instead of the worksheet, the school may accept a statement signed by the student (and at least one of the student's parents, for dependent students), listing the names of the household members, their relationships to the student, and their ages.

The law specifies who is included in the student's household. This topic is discussed in more detail in Chapter 6, under "Household Size."

When verification of household size is not required

The school doesn't have to verify household size in the following situations:

- The student's valid federal output document is received within 90 days of the date the application was signed.
- The household size is the same as the number reported for, and verified in, the previous award year.
- For dependent students: The parents are married, and the household size reported on the output document is three; or the parent is single, divorced, separated, or widowed, and the household size reported is two.
- For independent students: The student is married, and the household size reported is two; or the student is single, divorced, separated, or widowed, and the household size reported is one.

Number Enrolled in College

The student should **always** be included in this number, but the parents are excluded (unless the aid administrator exercises professional judgment to include them). Others can be included only if they are counted in the household size and will be attending a postsecondary educational institution at least half time (6 credit hours per term for at least one term or 12 clock hours per week) between July 1, 2000 and June 30, 2001. These individuals must also be working toward a degree or certificate leading to a recognized educational credential at an eligible school (see the *SFA Handbook: Institutional Eligibility and Participation* for more on institutional eligibility).

If the student completes a verification worksheet, no further documentation for this item is required. However, instead of the worksheet, the school may accept a statement signed by the student (and at least one of the student's parents, for dependent students). The statement should include the names and ages of those enrolled and the names of the schools they plan to attend. If the school still has reason to doubt the enrollment information reported, it should

Household Size Documentation Cite

34 CFR 668.57(b)

Members of a household

Generally, the following people can be included in household size: the student, the student's spouse, the student's parents (for a dependent student), children of the head of the household (either the student or the student's parents) who are supported by the head of the household, and anyone else who lives in the household and is supported by the head of the household. For a detailed discussion, see Chapter 6 of this publication.

Household Size Exception Cites

34 CFR 668.56(a)(3), (b), (c)

Number in College Documentation Cite

34 CFR 668.57(c)

**Number in College Exception
Cites**

34 CFR 668.56(a)(4), (b), (d)

require the student to obtain documentation from the other students and schools listed. (If a student in question hasn't yet registered, documentation from the school may not be available.)

Note that the statement to verify the number enrolled in a postsecondary education institution may be combined with the household size statement.

**AGI and Income Tax Documenta-
tion Cites**

34 CFR 668.57(a)

When verifying number enrolled in college is not required

As with household size, the school doesn't have to verify the number enrolled in college in any of the following instances:

- The student's valid federal output document is received within 90 days of the date the application was signed.
- The reported number enrolled is one (the student only).
- The family members the student lists are enrolled at least half time at the school, and the school has confirmed their enrollment through its own records.

Other Tax Forms

The following tax forms are considered alternatives to a U.S. Form 1040A and 1040EZ: the income tax return required by the tax code of the Commonwealth of Puerto Rico, Guam, American Samoa, the 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. Amounts are already reported in U.S. dollars and the school should look at tax return line items that are comparable to the U.S. line items for verification.

AGI and Income Tax

Most often the school can verify AGI and U.S. Income Tax Paid by using a copy of the signed U.S. income tax return. U.S. taxfilers can file their taxes electronically (through e-file), over the telephone (through TeleFile), or using traditional paper tax forms. As explained later in this section, the tax documents needed for verification may vary depending on the filing method used by the student, spouse, or parents. All documentation must contain the required signatures (or preparer's stamp or other official validations) and must contain all data necessary for verification. If all necessary data are not present, the student must provide additional documentation, as described in this section.

Tax Return FAFSA Questions

For students, the tax return questions are 38 and 39 on the FAFSA. For parents, the tax return questions are 61 and 62.

To verify AGI and taxes paid, the school must first identify everyone whose financial data was reported on the FAFSA, and which tax returns, if any, they filed. The school must check the tax returns for anyone whose financial data was reported on the FAFSA: the student, the student's spouse, or the student's parents. Each person reported on the FAFSA which tax return they filed or that they were not required to file a tax return at all. The type of form reported on the FAFSA should match what the student and his or her parents actually filed. (Prior to 1999-2000, the FAFSA question asked if the family was "eligible to file" the 1040A or 1040EZ.)

The AGI figures reported on the FAFSA should always match the AGI figures that appear on the student's tax return, unless the FAFSA amount has been adjusted from a joint return due to divorce, separation, or professional judgment (see "Using a joint return to figure individual AGI and taxes paid," page 197, and Chapter 9). If the figures don't match, a correction may be needed, as discussed in Chapter 9 of this publication. For more information on how specific

Line Items

	<i>1040 and 1040PC</i>	<i>1040A</i>	<i>1040EZ</i>
AGI	33	18	4
Income Tax Paid	49 plus 51	32	10
Deductible IRA/Keogh	23 and 29	15	
Earned Income Credit	59a	37a	8a
Tax-Exempt Interest Income	8b	8b	
Untaxed Portions of IRAs and Pensions (excludes rollovers)	15a minus 15b and 16a minus 16b	10a minus 10b and 11a minus 11b	

types and special categories of income should be reported on the FAFSA, see Chapter 6, “Income and Assets.”

The line item chart above shows the tax form line items for the most commonly reported items. This chart is a reference only; it is not an inclusive list of all the items the school must check on a tax return.

Acceptable copies

For verification purposes, the school can accept a copy (such as a photocopy, fax, or digital image) of the original signed return filed with the IRS. If a fax, photocopy, or other acceptable copy was made of an unsigned return, the filer (or at least one of the filers of a joint return) must sign the copy. The school can also accept a tax form that has been completed to duplicate the filed return; this duplicate must contain at least one filer’s signature.

Instead of a return the filer has signed, the school may also accept a paper return the tax preparer has signed or officially stamped. (Documentation from electronic returns must be signed by the filer, as explained in the following section.) In some cases, the school can waive the requirement for spouse information and signatures (see “Exclusions from Verification”).

Special situations

There are certain situations, such as when the student files taxes electronically, or earned foreign income, when the school may need to do something other than examine a 1040, 1040A, or 1040EZ form.

Electronic filing (e-file)

The IRS *e-file* program comprises several electronic filing methods. For example, the taxfiler can go to an *e-file* provider who will send the return to the IRS, or use taxfiling software on a home computer. The filer should always receive a paper copy of the return in some format. Software used on a home computer may

Nonfiler Documentation Cite
34 CFR 668.57(a)(4)(i)

produce a 1040PC, or may allow the taxfiler to print out a standard 1040, 1040A, or 1040EZ that contains the information that was filed electronically. Or the *e-file* provider might print out a copy of the return using its own format. Any of these paper copies of the return are acceptable documentation for verification purposes, as long as they are signed by at least one of the taxfilers. (Note that when an electronic tax return is filed, the filer also submits IRS Form 8453. Form 8453 doesn't have enough information for verification purposes.)

Returns like the 1040PC don't contain every line item; rather, they show only the data the taxfiler provided. For example, if Item 8a, "Taxable interest income," does not appear on such a return, that means the student reported no taxable interest income.

TeleFile

TeleFile (formerly called 1040TEL) allows 1040EZ filers to file a tax return over the phone. Filers complete a TeleFile Tax Record, call an IRS number, and enter the information over the telephone. The TeleFile Tax Record is acceptable documentation for verification purposes, provided it contains the filer's six-digit IRS confirmation number in Line M and is signed by the filer. (There's no signature line; have the filer sign at the bottom.)

Nonfilers

An AGI figure won't be available for individuals who aren't required to file a tax return. Such a person would instead report on the FAFSA income earned from work, which includes any income reported on the individual's forms W-2 *plus* any other earnings from work not reported on those forms. (Even if no taxes were paid on this income earned from work, it **should not** be reported as untaxed income on the FAFSA.)

A properly completed verification worksheet sufficiently documents income earned from work. No further documentation is required. If the student doesn't complete a verification worksheet, the school must require from each nonfiler a **signed statement** certifying his or her nonfiler status and listing the sources and amounts of income. (The school can also accept copies of the W-2 forms.)

The Department doesn't require financial aid professionals to have special knowledge or expertise regarding the U.S. tax code. If a person whose data was required on the FAFSA submits a signed statement claiming non-taxfiler status, and the school has reason to believe that person would have been required to file a U.S. tax return, this constitutes conflicting information and must be resolved. (For more information on conflicting information, see the Introduction.) For example, in such a case, the school might require a letter from the IRS, a copy of the applicable tax provision, or other documentation supporting the individual's

claim to nonfiler status. Remember, conflicting information **must** be resolved before the school can disburse federal student aid.

Extension Documentation Cite
34 CFR 668.57(a)(4)(ii), (a)(5)

Filing extensions

If any of the persons required to report information on the FAFSA will file but hadn't filed a tax return at the time of application, they would have used an estimated AGI on the FAFSA. At the time of verification, the necessary tax return(s) should have been filed and can be used for verification. If a return hasn't been filed by then and a filing extension was granted by the IRS, the school may accept the following alternative documentation:

- copies of the relevant forms W-2, and
- one of the following items as proof that the IRS has granted a filing extension:
 - △ a copy of IRS Form 4868—*Application for Automatic Extension of Time to File U.S. Individual Income Tax Return* (automatically grants the taxpayer a four-month extension beyond the April 15 deadline), or
 - △ a copy of the IRS approval of an extension beyond the automatic four-month extension.

In addition to supplying the above documentation, the student must submit a copy of the tax returns when filed. When the school receives the completed tax returns, it must use the tax returns to re-verify the required data. A student who fails to submit a copy of the filed tax return or alternative documents before the documentation deadlines is ineligible to receive federal student aid and is required to repay any aid disbursed. Regardless of whether the student repays the aid, the school is liable for the interim disbursement (see “Interim Disbursements,” page 200).

Fiscal year returns

For a fiscal year tax return (as opposed to a return for the calendar year), the student should report the AGI and U.S. Income Tax Paid from the fiscal year tax return that includes the greater number of months in the base year (see Chapter 6 for an example). Accordingly, the school should use the tax return from that fiscal year for verification purposes.

Nonresident filers

1040NR is a special return filed by certain nonresidents, mostly individuals holding temporary visas (such as an F-1 or H-1). Such persons are neither permanent residents nor U.S. citizens. The 1040NR is acceptable documentation for verification purposes.

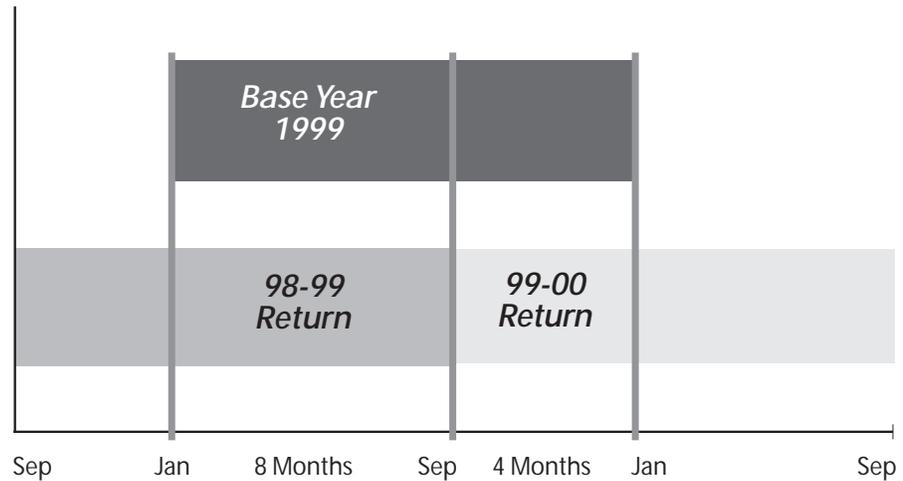
Foreign income

If a U.S. taxfiler earns foreign income, part of that income can sometimes be excluded from taxable income. The excluded portion should be reported as “untaxed income” on the FAFSA, while the remainder is part of the AGI. (The amount of foreign income that was excluded should be verified using IRS Form 2555

Substitute for Tax Return Cite
34 CFR 668.57(a)(2)

Fiscal Year Example

The fiscal tax return covers the period from September 1 to August 31. Because the larger portion of the base year (1999) is covered by the 98-99 fiscal return, that return should be used for verification.



or 2555EZ, as explained under “Verifying foreign income excluded from U.S. taxation,” page 199.)

If a foreign taxfiler earned foreign income and paid taxes to a central foreign government, the income and taxes paid should be treated the same as U.S. income and taxes paid. Information from the foreign tax return would be reported on the FAFSA and for verification purposes, the foreign return would be considered equivalent to an IRS Form 1040.

If the student (or the student’s parents) earned foreign income but did not pay any taxes on that income, it should be reported as untaxed income.

In all cases involving foreign income, the value of the foreign income and taxes should be reported in U.S. dollars, using the exchange rate at the time of application.

If a tax return isn’t available

If copies of the necessary tax returns are not available, the student must instead submit a copy of any IRS form that lists tax account information. The IRS has a number of such forms, including IRS Letter 1722 and the RTFTP. The Department doesn’t provide a comprehensive list of acceptable IRS forms. Any form that lists tax account information and provides the information needed for verification is acceptable. The form must also be signed by the student (and a parent, if the student is dependent), unless the IRS sent the form directly to the school.

IRS Letter 1722

The school may accept a copy of IRS Letter 1722 signed by the appropriate IRS regional official. (Stamped signatures are acceptable.)

IRS Letter 1722 can be obtained at local IRS district offices (**not** at regional service centers). This document might not provide as much information about the student's financial status as does the tax return. For this reason, the school may need to request supplemental documentation to complete verification.

RTFTP and other tax account summaries

In places where IRS Letter 1722 is not available, the school may accept the RTFTP, which is a computerized summary of tax return information provided by IRS Regional Service Centers. Some IRS regions may provide other tax account summaries. Again, as long as the summary has the information needed for verification, it's acceptable. The RTFTP or other tax account summary **must be signed** by the student (and at least one parent, if the student is dependent), unless it was sent directly from the IRS to the school (as requested by the student, using Form 4506).

Using a joint return to figure individual AGI and taxes paid

If the filer of a joint return has become widowed, divorced, or separated since filing the return, it may be necessary for verification purposes to determine the individual's income and taxes paid using the joint return and the relevant IRS Forms W-2. (If a filer is self-employed or if a W-2 is not available, the school may accept a signed statement from the filer that certifies the base year AGI and U.S. taxes paid.)

Starting with the income figures from the individual's forms W-2, add the individual's income that you have extracted from the joint return. Any interest or business income earned on joint accounts or investments should be assessed at 50%. (The same procedure should be used to divide business or farm losses.) Also, if the AGI listed on the joint return was adjusted ("Adjustment to Income"), you should reduce the individual's AGI by the portion of the adjustment that applies solely to him or her. For example, if an adjustment was made for moving expenses (which applies to the couple jointly), only 50% of the adjustment amount can be applied against the individual's income. An AGI figure can be calculated for the individual filer, using a joint return; a signed statement from the filer, certifying that the data from the joint return were accurately assessed, is sufficient documentation for this method.

Use one of the following methods to figure the individual's taxes paid:

- **Tax Table (preferred method).** Using the IRS Tax Table or Tax Rate Schedule for the appropriate year, calculate the amount of tax that would have been paid if a separate return had been filed. Use the deduction and number of exemptions the individual could have claimed if he or she had filed a separate return. (If itemized deductions were taken, count only the portion of those deductions that could have been claimed on a separate tax return.)

No Documents from IRS

If the IRS can't provide a copy of the return or any form with tax account information, the school can accept a copy of the W-2 for everyone whose income is listed on the FAFSA. If a filer is self-employed or if a W-2 is otherwise unavailable, the school can accept a signed statement from the filer certifying that his or her income and other appropriate information is correct.

Calculating Individual AGI from Joint Return Example

Eddy's application is selected for verification. He and his wife filed a joint return for 1999, and have since separated. The AGI on Eddy's FAFSA matches the AGI on the 1999 tax return, which means it's wrong, because it includes his wife's income. Eddy's W-2s show that his income for 1999 was \$12,500, while the AGI on the tax return is \$33,000. In addition to the income earned from work, the tax return also shows \$100 in interest income. Also, Eddy received a scholarship, and reported \$400 of the scholarship as taxable income. The FAA adds \$50 of the interest income to Eddy's income (because it was interest on a joint savings account), and includes all of the taxable scholarship in his income. Therefore, the FAA determines that Eddy's income is \$12,950, and submits a correction through EDE.

Calculating Individual Taxes Paid from Joint Return Example

The FAA has determined that Eddy's part of the \$33,000 AGI he and his wife reported is \$12,950. Eddy and his wife claimed five exemptions on their tax return (themselves, two children, and Eddy's nephew). Eddy's wife has custody of the children, and will claim them as her dependents when she files her tax return for 2000. Eddy's nephew still lives with him. Therefore, Eddy would have had two exemptions (himself and his nephew), totaling \$5,500. In the new situation, Eddy's filing status is "head of household" instead of "married." Therefore, his standard deduction is \$6,350 (instead of the \$7,200 for married filers). Eddy's income of \$12,950 minus the \$5,500 for exemptions and the \$6,350 standard deduction results in \$1,100 in taxable income. The FAA uses the tax table to determine how much tax Eddy would have paid on this amount, taking into account any applicable credits reported on the original return. With a taxable income of \$1,100, the amount of tax paid from the tax schedule would be \$167. To use the proportional distribution method instead, the FAA figures out what percentage of the joint AGI Eddy's income represents. The percentage is 39% (12,950 divided by 33,000 is .3924) The FAA then multiplies the income tax paid as reported on the tax return (\$1,864 for this example) by this percentage. Therefore, Eddy's income tax paid would be \$727 (.39 x \$1,864).

Untaxed Income and Benefits Documentation Cites
34 CFR 668.57(d)

- **Proportional Distribution.** Determine what percentage of the joint AGI was attributable to the individual and then assess the joint tax paid by that same percentage.

Examples of In-kind Income

- *Food Stamp Program*
- *Food Distribution Program*
- *Women, Infants, and Children Program (WIC)*
- *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)*
- *Rollover Pensions*
- *JTPA Benefits*
- *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*

Untaxed Income and Benefits

The term "untaxed income" means any income excluded from federal income taxation under the IRS code. For an application selected for verification, the school must verify up to six specific types of untaxed income and benefits:

- Social Security benefits,
- child support,
- IRA/Keogh deductions,
- foreign income exclusion,
- earned income credit, and
- interest on tax-free bonds.

Except for Social Security benefits and child support, the required items can be verified using the tax return or alternative tax documents.⁹ In addition to these types of untaxed income and benefits, the school must verify all other untaxed income reported on the U.S. individual income tax return (excluding schedules). Chapter 6 provides a complete discussion of untaxed income and benefits that must be reported on the FAFSA.

The school isn't required to verify any untaxed income and benefits received from a federal, state, or local government agency on

⁹ Nonfilers should submit a signed statement, as mentioned previously, that certifies their nonfiler status and lists the amounts and specific sources (by name) of untaxed income and benefits.

the basis of a financial need assessment. Further, certain types of income are considered “in-kind” income and should not be reported on the FAFSA and do not have to be verified.

Verifying untaxed Social Security benefits

The school isn’t required to verify Social Security benefits **unless** it has reason to believe that benefits were received and either were not reported or were reported incorrectly. If the school believes verification is necessary, the following documentation is acceptable:

- documentation from the Social Security Administration showing the total amount of benefits received by the student, the student’s spouse, or a dependent student’s parents, or
- a statement signed by the student (and spouse or parent) certifying that the amount of Social Security benefits reported on the application is correct.

Verifying child support received

The school must verify child support if the student, student’s spouse, or student’s parents report receiving it, or if the school has reason to believe it was received. Child support doesn’t have to be verified if the amount reported is the same amount that was verified in the previous year. A completed verification worksheet is sufficient to verify child support received. Otherwise, the school must require a statement confirming the amount of child support received for all children in the household. The student (and one parent, if the student is dependent) must sign this statement. If child support is paid through a government agency, a statement from that agency would also be acceptable. If the school has reason to doubt the statement provided, it should request at least one of the following items:

- a copy of the divorce decree or separation agreement showing the amount of child support to be provided,
- a signed statement from the parent who provided the support showing the amount of child support provided, or
- copies of the canceled checks or money order receipts.

Verifying deductions for IRA and Keogh plans

Deductible payments to IRA and Keogh plans can be verified using the tax return. The deducted amounts are reported on lines 23 and 29 of IRS Form 1040, or line 15 of IRS Form 1040A.

Verifying interest on tax-free bonds

Interest on tax-free bonds can be verified using the tax return. Refer to line 8b of IRS Form 1040 or to line 8b of IRS Form 1040A.

Verifying foreign income excluded from U.S. taxation

Under the IRS code, certain U.S. citizens and residents living in foreign countries are allowed to deduct some excessive foreign living expenses or to exclude a limited amount of income received for

Social Security Benefits Documentation Cites

34 CFR 668.57(d)(2)

Tip for Verifying Social Security Benefits

Be sure the student reports the total amount (not the monthly amount) of benefits received in the base year—including Supplemental Security Income and benefits received on behalf of dependent children. Also, be sure the benefits were not included in the AGI. Lastly, if the Social Security statement shows an amount deducted for Medicare, make sure that amount is included in the total benefits reported.

Child Support Documentation Cites

34 CFR 668.57(d)(3)

Interim Disbursements Cite
34 CFR 668.58

Pell, Perkins, FSEOG Interim Disbursement Example

Steven's application is selected for verification. He's attending Brust Conservatory, which chooses to make interim disbursements. Steven's eligible for a Pell, and Brust also awards him a Perkins Loan. He isn't eligible for an FSEOG. Steven has already made some corrections because Brust discovered errors in his application, but he hasn't submitted all the verification documentation yet. Brust doesn't want to pay Steven until it receives his corrected output document. As long as Brust makes the payment before the first payment period ends, it can make an interim disbursement before Steven turns in all his verification paperwork. Otherwise, Brust will have to wait until Steven completes verification to make any disbursements.

personal services rendered abroad. Though deducted for tax purposes, this amount is considered untaxed income for federal student aid purposes. It should be reported on the FAFSA, and the school must verify it. Excluded foreign income can be verified by using IRS Forms 2555 (line 43) or 2555EZ (line 18). Note that the final total for Form 2555 shouldn't be reported as untaxed income, because it contains other exclusions.

Verifying earned income credit (EIC)

Earned income credit is available to certain eligible workers and must be reported on the FAFSA and verified. The amount can be verified from line 59a of the 1040, line 37a of the 1040A, or line 8a of the 1040EZ. Note that if parents file a joint tax return and qualify for EIC but then separate or divorce before the student files the FAFSA, the parent with whom the student lived most in the last 12 months would determine his or her portion of the EIC by using the tax table or proportional distribution calculations (see "Using a joint return to figure individual AGI and taxes paid," page 197).

COMPLETING THE PROCESS

If a student's application is selected for verification, he or she must complete the verification process or forfeit federal student aid eligibility. The school has the authority to withhold disbursement of any federal student aid funds until the student completes the required verification. Such a policy ensures that a student's application information and eligibility determination are absolutely correct before any funds are disbursed. Adopting this policy substantially reduces the incidence of overpayments. However, the school can also make an interim disbursement before verification is complete.

Interim Disbursements

As long as the school has no reason to believe the application information is inaccurate, it can make an interim disbursement before verification is complete. If the school has reason to believe the student's application may be inaccurate, it can't make any interim disbursements. The interim disbursement limitations as they apply to each program are listed below. The school is liable for an interim disbursement if verification shows that the student received an overpayment, or if the student fails to complete verification.

The Federal Pell Grant, Federal Perkins Loan, and FSEOG Programs

The school can make one disbursement from each of these programs, for the student's first payment period. Note that if the school makes an interim Pell disbursement, it reports the payment to the Department with a "W" (Without Documentation) verification status code. (See "Verification status codes," page 202.)

The Federal Work-Study (FWS) Program

Before completing verification, the school can employ a student under FWS for up to 60 *consecutive* days after he or she enrolled (or in summer employment for up to 60 days), provided the school has no

conflicting documentation on the student. After 60 days, if verification has not been completed, the school can't employ the student under FWS any more. If the school later discovers that an overaward exists, it should attempt to adjust the student's other aid. Otherwise, it must reimburse the FWS Program from school funds. Except in the case of proven student fraud, a student can't be required to repay FWS wages earned. (See the Campus-Based Programs Reference.)

The Direct Loan and FFEL Programs

If the school has no conflicting documentation, it can originate a Direct Subsidized Loan or certify a Federal Stafford Loan application for a student who hasn't completed the verification process. However, it can't disburse a Direct Subsidized Loan or deliver Federal Stafford Loan proceeds to the borrower.

If the school originates a Direct Subsidized Loan or certifies a Federal Stafford Loan application before verification is completed, it may later discover that the loan amount exceeds the student's need. See Chapter 10 of this publication for more on handling loan overawards.

There are limits on how long the school can hold loan proceeds before either disbursing them to the student or returning them to the lender. Generally, the limit is 3 business days for funds received by EFT or master check, and 30 days for individual checks (see the Direct Loan and FFEL Programs Reference for a complete discussion). If the school has received the funds from the lender, and the student doesn't complete verification within these time limits, the school must return those loan proceeds to the lender.

After Documentation is Complete

When the school has obtained all necessary verification documents from the student, it should compare that documentation to the information originally reported on the application. If the verification process shows that all the student's information is correct, and there are no outstanding issues or conflicting information, the school may award aid and disburse aid for which the student is eligible.

If verification revealed errors or inconsistencies, the student may have to make corrections. See Chapter 9 of this publication for information on the correction process. Generally, the student must correct data that was incorrect at the time the application was completed, unless it falls within the verification tolerance. The student can't update information that was correct at the time of application, except in very specific circumstances discussed in Chapter 9.

Verification tolerance

Verification can sometimes uncover minor errors that won't significantly affect the student's eligibility. Therefore, the Department has a tolerance option for verification, which allows schools to disregard these minor errors.

Disbursement of Unsubsidized Loans without Verification

As mentioned previously, verification isn't required for unsubsidized loans. Therefore, schools can originate, certify, and disburse unsubsidized loans regardless of a student's verification status.

Holding Loan Proceeds Cite

34 CFR 668.167(b)

Items that Must be Updated

If the student is selected for verification, then household size and number in college must be updated to be correct at the time of verification. Dependency status must be updated if it changes during the award year (see Chapter 9).

Tolerance Example

Emma originally reported an AGI of \$2,500, \$300 in untaxed income, and \$300 U.S. income tax paid. Verification shows that her AGI was actually \$3,000, and she paid \$400 in U.S. income tax.

Original: \$2,500 (AGI) + \$300 (untaxed income) - \$300 (taxes paid) = \$2,500 (uncorrected total)

Corrected: \$3,000 (AGI) + \$300 (untaxed income) - \$400 (taxes paid) = \$2,900 (corrected total)

Net Difference: \$400 (\$2,900-\$2,500)

Because the net difference is within tolerance, the school can award Emma's aid based on what she originally reported, without requiring corrections or recalculation of the EFC.

There is no tolerance for errors in nondollar items. If the original application has errors in any nondollar items, such as household size, the school can't use the tolerance option, and the student must make a correction. However, if there are only dollar amount errors, and all dollar errors are within the tolerance limit, the school may award the student's aid based on the application data as is, without submitting corrections or recalculating the EFC. Note that if the school doesn't want to figure out whether the errors fall within the tolerance, it can simply have the student submit corrections for reprocessing.

The tolerance limit is \$400; the tolerance option takes into account certain dollar items, and if the net difference between the original and correct data is more than \$400, the information must be corrected. To calculate the net difference for purposes of the tolerance, first add the original (uncorrected) AGI¹⁰ and untaxed income amounts. From that amount, subtract the original U.S. income tax paid to get the uncorrected total. Then, add the correct AGI and untaxed income amounts and subtract from that total the correct U.S. income tax paid to get the corrected total. If the difference between the uncorrected total and the corrected total is \$400 or less (and there are only dollar amount errors), the errors are within tolerance; recalculation is not required.

Verification status codes

When a school disburses a Pell award, it must report the student's verification status when it reports the payment. The codes for reporting verification status are discussed in detail below. Note that this reporting requirement applies even if the student's application was not selected for verification. (See the Pell Reference for more information.)

N—not selected by the CPS

The CPS didn't select the student, and the school didn't verify any items. (If verification wasn't required, but the school verified some of the student's information anyway, the school wouldn't use the "N" code. Instead, it would use one of the other codes, as appropriate.)

A—accurate

Verification was completed, and the record being used for the award is accurate.

W—without documentation

Verification is required, but the student hasn't completed the process. A first disbursement has been made. Verification *must* be completed before the next disbursement can be made, and the school must enter a different verification code on that student's disbursement record to show the verification status under which the student was finally paid.

¹⁰ If the student, spouse, or parents didn't file and aren't required to file a federal tax return, the school can use income earned from work instead of an AGI.

If a student's disbursement record still shows a "W" code after the Pell verification deadline has passed, that student's award eligibility will be dropped, or "zeroed out," from the Pell payment system. The school will not receive Pell funds for the student and must repay any funds already disbursed in accordance with the overpayment procedures discussed in Chapter 3 of this publication.

Failure to Submit Documentation
Cite
34 CFR 668.60

T—tolerance

Some data items were incorrect. However, the discrepancy was within the tolerance, and the student was paid based on the uncorrected data. This code is also used for students who are exempt from verification under one of the allowable exclusions. (See "Verification Exclusions.")

C—calculated

The application information was verified and found to be incorrect. The school recalculated the EFC and determined that the recalculated award would be the same or higher than the original award. The school paid based on the original EFC, without requiring the student's application information to be corrected and reprocessed. If the school's calculation is wrong, it will be liable for any overpayment. (To pay the higher award according to the recalculated EFC, the application information must be corrected and reprocessed.)

R—reprocessed

The application information was verified and found to be incorrect; the information was corrected and reprocessed for that reason. The school paid the student based on the reprocessed application information. If a student makes additional errors in correcting and the reprocessed output document is still not valid for payment, the student must make corrections again, and the information must again be reprocessed. The "R" code still applies. (If the additional errors fall within tolerance, the student may be paid without the application information being reprocessed again. In this case, use the "T" code.) The school should also use an "R" code if the student voluntarily corrected the application and had it reprocessed without being required to. An "R" code applies only to application information that has been corrected and reprocessed. The "R" code can't be used on a student's original application (also called an 01 transaction).

S—selected, not verified

The application was selected for verification but was not verified either because the school has already verified at least 30% of its total applications for federal student assistance or is participating in the QA Program.

Failure to Submit Documentation

A Pell applicant selected for verification must complete the process within deadlines set by the Department. Every year, the Department publishes a deadline notice in the *Federal Register*. At the time this

Pell Failure to Complete Verification Cite

34 CFR 668.60(c)

publication went to print, the deadline notice for 2000-2001 had not been published; however, we expect the 2000-2001 deadline to be August 31, 2001 or no later than 90 days after the last day of the student's enrollment, whichever is earlier. Campus-based, Direct Subsidized Loan, and Federal Stafford Loan applicants must complete verification within the deadlines the school establishes.

Campus-Based, Direct Loan, FFEL Failure to Complete Verification Cite

34 CFR 668.60(b)

Defining "completed" verification

For the Federal Pell Grant Program, the student has completed verification when he or she has corrected the data or has shown, as required, that the application data are correct. In addition to all verifying documentation, the school must also have on file the final and valid federal output document, showing the official EFC.

For the campus-based, Direct Subsidized Loan, and Federal Stafford Loan programs, the student has completed verification when he or she has submitted all requested documentation to the school. The school must also have on file an output document that shows the student's application data were processed through the CPS at least once. (The output document need not be final or signed by the student).

The consequences of failing to complete verification

Under the Federal Pell Grant Program, if a student does not complete verification by the deadline, he or she forfeits the Pell for the award year; the school must repay to the Department any funds already disbursed.

Under the campus-based, Direct Loan, and FFEL programs, if a student fails to provide the required documentation by the deadline, the school must not

- disburse additional FSEOG or Federal Perkins Loan funds to the student (funds already disbursed must be repaid by the school),
- continue the student's employment in an FWS job,
- originate a Direct Subsidized Loan or certify a Federal Stafford Loan application for the student (the school may have done so before verification was completed, but can't do so after the verification deadline), or
- disburse Direct Subsidized Loan proceeds or deliver Federal Stafford Loan proceeds to the student.