

SESSION #19

Verification (2020-21 and 2021-22)

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AGENDA

1. Hot Topics
2. Verification History
3. 2020-21 Verification
4. 2021-22 Verification
5. Verification Rates



1. HOT TOPICS



COVID-19

- This session will not address specific adjustments or allowances related to the current COVID-19 national emergency
- For information related to COVID-19 and any additional guidance currently afforded institutions with respect to verification, please attend or review:
 - General Session #5, Federal Update: COVID-19 Higher Education Policy

2021-2022 TAX RETURN MATRIX

- Scheduled to be published
- Reflects changes for 2019 Federal Tax Return/Transcripts and 2021-22 FAFSA[®] line references
 - Federal Tax Form line numbers changed to show numerical order instead of maintaining original 1040 tax line
 - IRS Tax Return Transcripts allow for the presentation of information from both old (pre 2018) and new (2018 and after) Form 1040, therefore some data fields may appear duplicated where there is no data for one field, but data for the other

FUTURE ACT

- Fostering Undergraduate Talent by Unlocking Resources for Education (FUTURE) Act; Passed December 19, 2019
- Amends Section 6103 of the Internal Revenue Code to allow direct data sharing between the Internal Revenue Service (IRS) and Federal Student Aid (FSA)
- FSA and IRS are collaborating to explore use of the amendments to Section 6103 of the Internal Revenue Code

REPORTING RESULTS FOR GROUPS V4 & V5

- An institution must report the verification results of identity and high school (HS) completion status through FAA Access to CPS Online for any student they received an Institutional Student Information Record (ISIR) with tracking flag V4 or V5 and request verification documentation
- Please note that there is a discrepancy between the language in the FSA Handbook and FAA Access to CPS Online. Both items listed below mean the same thing – that verification was completed using a notary:
 - The 2020-21 Application and Verification Guide states: 2 – Verification completed using notary, no issues found
 - FAA Access to CPS Online states: 2 – Verification of both identity and high school completion status were satisfactorily completed remotely by use of a notary, and no issues were found

2. VERIFICATION HISTORY

VERIFICATION HISTORY

- Program Integrity regulations effective for the 2012-13 award year
- Added verification tracking groups
- New data elements and verification tracking groups have been added and deleted over the last six years

3. 2020-21 VERIFICATION

2020-21 VERIFICATION

- An institution may request applicants submit a tax transcript as documentation of income and tax information
- A signed copy of the income tax return, along with applicable schedules, is also acceptable
- An institution may not require a tax transcript in lieu of a signed copy of the income tax return unless the institution has concerns about the validity of the tax return submitted
 - In those circumstances the institution may require a tax return transcript or other documentation specified in the annual *Federal Register* Notice
 - The institution must document the reason why the income tax return was not acceptable

2020-21 VERIFICATION RESOURCES

Federal Register Notice of Information to be Verified for the 2020-2021 Award Year
<https://ifap.ed.gov/fregisters/FR052419.html>, May 24, 2019

Dear Colleague Letter GEN-19-02
<https://ifap.ed.gov/dpcletters/GEN1902.html>, June 7, 2019

2020-2021 FAFSA Verification Suggested Text
<https://ifap.ed.gov/eannouncements/073119VerificationSuggestedTextPackage20202021.html>, July 31, 2019

2020-2021 FAFSA Verification-IRS Tax Return Transcript Matrix
<https://ifap.ed.gov/electronic-announcements/112619fafsa2021verifiirstaxreturntranscriptmatrix>,
November 26, 2019

2020-2021 EDE Technical Reference (Final)
<https://ifap.ed.gov/ede-technical-reference/07-15-2019-2020-2021-ede-technical-reference-final>, July 15,
2019

2020-2021 ISIR Guide
<https://ifap.ed.gov/isir-guide/08-08-2019-2020-2021-isir-guide>, August 8, 2019

4. 2021-22 VERIFICATION

2021-22 VERIFICATION

- Same data items
- No changes to the verification tracking groups
- Acceptable documentation in the *Federal Register*
Notice on 09/03/2020
- 2021-22 FAFSA Verification Suggested Text published
09/25/2020

2021–22 VERIFICATION

- 2019 Income Information for Tax Filer (V1 and V5)
 - Adjusted Gross Income (AGI)
 - U.S. Income Tax Paid
 - IRA Deductions and Payments
 - Tax Exempt Interest Income
 - Education Credits
- 2019 Income Information for Nontax Filer (V1 and V5)
 - Income Earned from Work

2021-22 VERIFICATION

- Number of Household Members (V1 and V5)
- Number in College (V1 and V5)
- High School Completion Status (V4 and V5)
- Identity/Statement of Educational Purpose (V4 and V5)

2021-22 VERIFICATION

Filing an extension beyond automatic six-month extension for 2019 tax year

- A copy of the IRS's approval of an extension beyond the automatic six-month extension for tax year 2019
- Verification of non-filing from the IRS dated on or after October 1, 2020
- A copy of the IRS Form W-2 for each source of 2019 employment income received or an equivalent document; and
- If self-employed a signed statement certifying the amount of AGI and U.S. income tax paid for tax year 2019

An institution may require that after an income tax return is filed, an individual granted this extension submit tax information. When an institution receives such information, it must be used to reverify the income and tax information reported on the FAFSA.

2021-22 VERIFICATION

Verification of Nonfiling (VNF)

- If an individual is unable to obtain VNF and the institution has no reason to question the student's or family's good-faith effort to obtain the required documentation, the institution may accept a signed statement certifying that the individual attempted to obtain the verification of nonfiling from the IRS or other relevant tax authority and was unable to obtain the required documentation.

For IRS extension filers, the signed statement must also indicate that the individual has not filed a 2019 income tax return and list the sources of any 2019 income, and the amount of income from each source.

2021-22 VERIFICATION

Verification of Nonfiling (VNF)

Since individuals without a Social Security Number, an Individual Taxpayer Identification Number, or an Employer Identification Number are unable to obtain a verification of nonfiling from the IRS, these individuals whose income is below the IRS filing threshold must submit to the institution a signed and dated statement:

- Certifying that the individual(s) does not have a Social Security Number, an Individual Taxpayer Identification Number, or an Employer Identification Number; and
- Listing the sources and amounts of earnings, other income, and resources that supported the individual(s) for the 2019 tax year

2021-22 VERIFICATION

Individuals with an Automatic-Zero Expect Family Contribution (EFC)

For dependent students –

- The parents' Adjusted Gross Income (AGI) if the parents were tax filers;
- The parents' income earned from work if the parents were nontax filers; and
- The student's high school completion status and identity/ statement of educational purpose, if placed in Verification Tracking Group V4 or V5.

2021-22 VERIFICATION

Individuals with an Automatic-Zero Expect Family Contribution

For independent students –

- The student's and spouse's AGI if they were tax filers;
- The student's and spouse's income earned from work if they were nontax filers;
- The student's high school completion status and identity/statement of educational purpose, if placed in Verification Tracking Group V4 or V5; and
- The number of household members to determine if the independent student has one or more dependents other than a spouse.

2021-22 VERIFICATION

Rollover

- If the IRS Data Retrieval Tool (DRT) transfers a non-zero amount into the untaxed pension or IRA distribution field, the applicant will be able to report the amount of rollover and the Central Processing System (CPS) will subtract it.
- The IRS Data Field Flag will be “2” – Field changed by user prior to submission of application.
- To complete verification of this item, collect a signed statement certifying that the untaxed pension or IRA distribution contained a rollover.

2021-22 VERIFICATION

Amended Returns

For an individual who filed an amended income tax return with the IRS, a signed copy of the IRS Form 1040X that was filed with the IRS for tax year 2019 or documentation from the IRS that include the change(s) made to the tax filer's 2019 tax information, in addition to one of the following:

- IRS DRT information on an ISIR record with all tax information from the original 2019 income tax return;
- A transcript obtained from the IRS that lists 2019 tax account information of the tax filer(s); or
- A signed copy of the 2019 IRS Form 1040 and the applicable schedules that were filed with the IRS.

APPLICATION AND VERIFICATION GUIDE

The Application and Verification Guide in the FSA Handbook, Chapter 4 expands on other verification concepts like:

- Verifying victims of identity theft
- When an applicant should update information
- Verification deadlines
- Interim disbursements
- Professional judgment and verification
- And much more

2021-22 VERIFICATION RESOURCES

Resources

Federal Register Notice of Information to be Verified for the 2021-22 Award Year,

<https://ifap.ed.gov/sites/default/files/attachments/2020-09/FR090320.pdf>,

September 3, 2020

2021-2022 FAFSA Verification Suggested, <https://ifap.ed.gov/electronic-announcements/092520VerificationSuggestedTextPackage2122AY>,

September 25, 2020

5. VERIFICATION RATES



VERIFICATION RATES

- For the second year, using a Machine Learning Model (MLM) to choose FAFSA filers for verification.
- A smarter model for choosing FAFSA filers.
- Traditionally, around 30% of FAFSA filers overall were chosen for verification. Since October 1, 2018, around 22% of filers were chosen for verification.
- Selected about 900,000 fewer FAFSA filers for the 2019-20 FAFSA when compared to the 2018-19 FAFSA.

VERIFICATION RATES

- This year we used training data from both the 2018-19 FAFSA and the 2019-20 FAFSA to conduct our cost-benefit analysis.
- This analysis informed us about what our verification rate should be for the upcoming year.
- The analysis indicated that the costs of doing verification exceed the benefits when we verify more than 18% of FAFSA filers.
- Starting October 1, 2020, we have been verifying 18% of FAFSA filers.

VERIFICATION RATES

- This year's verification rate is a reduction of about 4% from last year.
- This means that for the 2021-22 FAFSA (which started on October 1, 2020) we will be verifying another **450,000** fewer FAFSA filers, if FAFSA filing rates stay roughly consistent with last year.

VERIFICATION RATES

Why choose 18% of FAFSA filers for verification?

- Our analysis showed that verifying 18% of FAFSA applicants resulted in the highest return on investment regarding reduced improper payments.
- Verifying the riskiest of filers means the return in improper payments prevented is greater than the cost.
- Results in reduced improper payments AND reduced burden to colleges and universities AND reduced burden to students and families.

VERIFICATION RATES

How do we get to a lower selection rate?

- The Machine Learning Model (MLM) chooses FAFSA filers based on a risk score.
- FSA also chooses a small sample to be a control group and a random sample as a treatment group.
- Overall selection rate is just over 18%.

VERIFICATION RATES

How does FSA continue to lower the verification rate?

- Verification is a balancing act between burden on students and families, the need to limit improper payments, and being mindful of the administrative burden on colleges and universities.
- Improper payments are defined as a FAFSA filer getting more OR less federal aid than they are eligible to receive due to error.
- Due to the use of the Machine Learning Model and the use of newer training data, FSA can continue to lower verification rates while controlling improper payments.

VERIFICATION RATES

What impact did the reduction of verification rates have on verification melt?

- Verification melt is the term used when a FAFSA filer chosen for verification drops out of the process and thus, is not able to access federal aid.
- FSA estimates verification melt to be 11% of filers chosen for verification, but other estimates put verification melt higher.
- When fewer filers are selected for verification, it is likely that verification melt decreases as well.

VERIFICATION RATES

What is the impact of a reduced verification rate?

- Verify about 450,000 fewer FAFSA filers for the 2021-22 FAFSA in comparison to the 2020-21 FAFSA.
- A verification melt rate of 11% means that nearly 50,000 more students may continue the process and receive federal aid that helps them to access higher education.
- If the verification melt rate is higher (some estimates put it as high as 25%) that number climbs to 112,500 students who will now access federal aid to fund their postsecondary education.

VERIFICATION RATES

What are FSA's goals for verification?

- Reducing the burden of verification on institutions, and on students and families while responsibly controlling for improper payments.
- Machine Learning Model is retrained every year.

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