

PART 3:

COMPLETING THE FAFSA

As mentioned in Part 2 of this handbook, a student does not have to pay a fee for having the FAFSA processed. Information collected on the FAFSA is, by law, used to calculate the EFC. The FAFSA is developed by the U.S. Department of Education. Comments on the design of the form may be sent to:

Application and Pell Processing Systems Division
U.S. Department of Education
600 Independence Avenue, S.W.
ROB-3, Room 4621 MS 5454
Washington, DC 20202

The 1998-99 FAFSA is white, blue, and gray. Dependent students must complete the white and blue areas; independent students must complete the white and gray areas.

The instructions included with the application explain how to answer each question. In the following pages, we have provided a copy of the 1998-99 FAFSA. In addition, because the instructions cannot address every possible family situation, we will discuss the purpose of the FAFSA questions and discuss how information should be reported in some unusual cases.

To complete the FAFSA, a student should use black ink or a No. 2 pencil. Dollar amounts should be rounded to the nearest whole dollar. Dates must be reported in numbers in the boxes provided, such as 02/14/98 for February 14, 1998.

Month	Day	Year
02	14	1998

This part of this handbook is also available online at http://www.ed.gov/prog_info/SFA/FAFSA.

SECTION A " YOU (THE STUDENT) "

Purpose: The FAFSA collects identifying information that is used to track a student (name, telephone number, address, SSN, and so on) and other information that affects a student's basic eligibility for federal student aid. For instance, Section A includes a question about citizenship status because a student must be a U.S. citizen or eligible noncitizen to receive federal student aid. Similarly, a student who has a bachelor's degree is ineligible to receive a Federal Pell Grant or an FSEOG. For 1998-99, three questions about the student's education background were added to Section A. (The questions used to be in a separate Section B.) These questions collect information on the educational background of a student and his or her parents. Some state agencies use this information to award grants and scholarships.

Questions 1-3 ask for the student's name. The name, along with other identifying information, is used for several of the data matches. Because the Department matches the name and SSN with the SSA, the name provided here should match the name on the student's Social Security card. Otherwise, the student may receive a comment about the inconsistency, and some of the other match results may be inconsistent.

Questions 4-7 ask for a student's permanent mailing address. The student generally must give a **permanent home mailing address** (not a school or office address). An incarcerated student may use his or her school's administrative address or the correctional facility's address. If such a student uses the school's administrative address, he or she must include with the FAFSA a letter from the school indicating that he or she is incarcerated and is, therefore, using the school's address.

4-7. Your permanent mailing address
(All mail will be sent to this address. See Instructions, page 2 for state/country abbreviations.)

4. Number and street (include apt. no.)

5. City

6. State

7. ZIP code

Question 8 asks for a student's SSN. A student must have an SSN to apply for federal financial aid. 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 it is if a student's Social Security card has been lost, the student must contact the local Social Security office. For additional information (in English and Spanish), a student should call the SSA at 1-800/772-1213.

8. Your social security number (SSN) (Don't leave blank. See Instructions, page 2.)

The one exception to the SSN requirement is for students from the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau. They should send their FAFSAs to the following address—**not** to the address on the FAFSAs or on the FAFSA envelopes:

Federal Student Aid Programs
P.O. Box 4003
Mt. Vernon, IL 62864-8603

Questions 11 and 12 ask for the student’s state and date of legal residence. The student’s state of legal residence identifies the state agency to which information will be sent unless the student has refused to authorize such a release in Section G of the form. The state then may use this information to determine eligibility for state student aid programs. The student’s state of legal residence is also used in the EFC calculation to determine the appropriate allowance for state and other taxes paid by that state’s residents. For a dependent student, the state of legal residence is usually the state in which his or her parents live.

Questions 17 and 18 ask about a student’s marital status because the treatment of a student’s income and assets in the EFC calculation is directly affected by the student’s marital status. Marital status cannot be projected—the student must report his or her marital status as of the date the application is completed.

Question 19 asks whether a student will have a first bachelor’s degree before July 1, 1998 because eligibility for Federal Pell Grants and FSEOGs is restricted to students who have not yet received bachelor’s degrees. If the student answers “yes” to this question, a message saying the student has received a bachelor’s degree will be printed at the top of page one of the SAR or on the electronic filing results. If a student incorrectly reports “yes” to question 19, he or she **must** submit a correction to be eligible for a Pell Grant. Question 20 asks whether a student will have received his or her high school diploma or earned a GED before the first date of his or her enrollment in college.

Questions 21 and 22 ask for the highest grade level completed by a student’s father and mother. Father and mother in these questions mean the student’s birth parents, adoptive parents, or legal guardian(s), but not stepparents or foster parents. Note that this definition of parents is unique to this question.

17. As of today, are you married? (Fill in only one oval.)

I am not married. (I am single, widowed, or divorced.) 1

I am married. 2

I am separated from my spouse. 3

18. Date you were married, separated, divorced, or widowed. If divorced, use date of divorce or separation, whichever is earlier.
(If never married, leave blank.) Month Year

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SECTION C "STUDENT STATUS"

Purpose: *The questions in Section C determine whether a student is considered a dependent student or an independent student under the law for purposes of calculating an EFC. This section is important in determining a student's EFC under the federal need analysis formula. An independent student does not report parental information on the FAFSA. A student's income and assets are always included in the EFC calculation. An FAA may override a student's dependency status in individual cases if he or she decides that a student should be considered an independent student, regardless of the answers to the questions in Section C.*

INDEPENDENT STUDENT DEFINITION

Questions 38-43 ask a student whether he or she meets any of the criteria that would establish him or her as an independent student. A student is automatically considered independent if he or she meets at least one of the following criteria:

- the student was born before January 1, 1975;
- the student is a veteran of the U.S. Armed Forces (Army, Air Force, Navy, Marine Corps, or Coast Guard);
- the student will be enrolled in a graduate or professional program (beyond a bachelor's degree) in 1998-99;
- the student is legally married on the date the student signs the application;
- the student is an orphan or a ward of the court (or has been a ward of the court until reaching the age of 18); or
- the student has legal dependents other than a spouse.

A student who answers "yes" to question 40 (*Will you be enrolled in a graduate or professional program...?*) is not eligible for a Federal Pell Grant. If a student incorrectly reports "yes" to question 40, he or she must submit a correction to be eligible for a Pell Grant.

The instructions explain each criterion in greater detail. The student should read them carefully, because they define some of the terms used, such as "veteran," "legally married," "orphan," and "legal dependent." The student should note in particular that the definition of veteran includes a student who attended one of the service academies and was released under a condition other than dishonorable. A student answering "yes" to any question in Section C will be classified as an independent student, even if the student is still living with his or her parents.

After Section C, the form asks for parental information and student/spouse information separately. An independent student is not required to provide any parental information.

A dependent student provides information about himself or herself in the white areas and about his or her parents in the blue areas. The dependent student and at least one parent must sign the FAFSA.

An independent student gives information only about himself or herself and about his or her spouse (if married) by filling out the white areas and gray areas. The student must sign the FAFSA.

DEFINITION OF " PARENT "

The term "parent" is not restricted to a student's biological parents. There are several instances in which a person other than a student's biological parent is treated as the student's parent. If this person is considered a parent to the student, as defined by the list that follows, then the parental questions on the application must be answered as they apply to that person.

Adoptive Parent—is treated in the same manner as biological parents.

Foster Parent—is not treated as a student's parent.

Legal Guardian—is treated in the same manner as a biological parent, if the court has appointed him or her **and** if the court has directed him or her to use his or her financial resources to support the student. This legal relationship must continue beyond June 30, 1999. The income and assets of the guardian's spouse would not be reported unless the court directed that those resources be used to support the student. Even if the spouse's income is not reported, the spouse is still included in the applicant's household size.

If a student is living with his or her grandparents or other relatives, the same principle applies. Unless the grandparents have adopted the student or are the student's court-appointed legal guardians and are required by the court to use their resources to support the student, the income of the grandparents should not be reported on the FAFSA. A student should see the FAFSA instructions for more information.

Stepparent—is treated in the same manner as a biological parent if the stepparent is married, as of the date of application, to a student's biological parent whose information will be reported on the FAFSA or if the student has been legally adopted by the stepparent. **There are no exceptions.** The federal need analysis system does not recognize prenuptial agreements. If the biological parent has died and the stepparent survives, then the student is independent (assuming the

student is not dependent on the surviving biological parent), unless the stepparent legally adopted or is the legal guardian of the student. Note that the stepparent's income information for the entire base year, 1997, must be reported even if the parent and stepparent were not married until after 1997.

In cases of death, separation, or divorce, a student must answer parental questions on the FAFSA as they apply to the surviving or responsible parent.

Death of Parent. If one, but not both, of the student's parents has died, the student will answer the parental questions on the basis of the surviving parent and will not report any financial information for the deceased parent on the FAFSA. If both the student's parents are dead when the student fills out the FAFSA, the student must answer "yes" to Question 42, making the student independent. If the last surviving parent dies after the FAFSA has been filed, the student must use the SAR to update his or her dependency status and all other information as appropriate.

Divorce of Parents. If the student's parents are divorced or separated, the student should report the information of only one parent, the parent that he or she lived with the most during the past year. **It does not make a difference who claims the student as an exemption for tax purposes.** If the student did not live with either parent or lived equally with each parent, then the parental information must be provided for the parent from whom the student received the most financial support or the parent from whom the student received the most support the last time support was given.

Separation of Parents. If a separation has occurred, the same rules as for a divorce should be used to determine which parent's information must be reported. The separation need not be a legal separation—the student's parents may consider themselves separated when one of the parents has left the household for an indefinite period of time. However, if the parents still live in the same house, they would not be considered separated, and information for both parents must be reported.

Common-Law Marriage. If the student's parents are living together and have not been formally married but meet the criteria in their state for a common-law marriage, they should report their status as married on the application. If the state does not consider the situation to be a common-law marriage, then the parents should file the FAFSA as if they are separated. Check with the appropriate state agency concerning the definition of a common-law marriage.

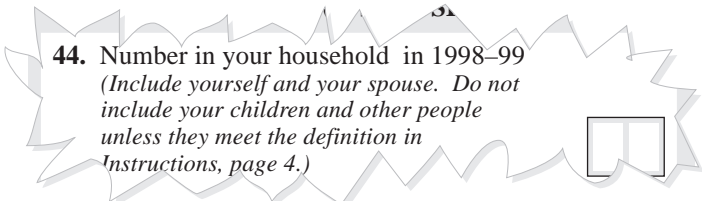
SECTION D "HOUSEHOLD INFORMATION"

Purpose: *The number of family members reported in Section D determines the income protection allowance that will be subtracted from the family's income to account for basic living expenses. The number of family members in college directly affects the family's ability to contribute to the student's education costs. The student's EFC is divided by the number of family members in college.*

HOUSEHOLD SIZE

The following persons may be included in the household size of an independent student:

- the student;
- the student's spouse, excluding a spouse not living in the household as a result of death, separation, or divorce;
- the student's dependent children, if they received or will receive more than half of their support from the applicant's household between July 1, 1998 and June 30, 1999;
- the student's unborn child, if that child will be born before or during the award year and the applicant's household will provide more than half of the child's support from the projected date of birth to the end of the award year (if there is a medical determination of a multiple birth, then all expected children can be included); and
- other persons, if they live with the student **and** receive more than half of their support from the applicant's household at the time of application and will continue to receive that support for the entire 1998-99 award year (July 1, 1998 through June 30, 1999).

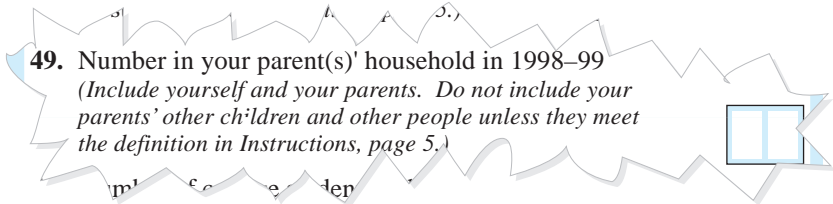


44. Number in your household in 1998-99
(Include yourself and your spouse. Do not include your children and other people unless they meet the definition in instructions, page 4.)

The following persons may be included in the household size of a dependent student's parents:

- the student (even if the student does not live with the parents);
- the student's parent(s), excluding a parent not living in the household as a result of death, separation, or divorce;
- the student's siblings, if they received or will receive more than half of their support from the student's parent(s) between July 1, 1998 and June 30, 1999 **or** if they would be required to report parental information on the FAFSA;

- ❑ the student’s children, if they received or will receive more than half of their support from the student’s parent(s) between July 1, 1998 and June 30, 1999 (even if the children do not live with the student’s parents, they must be counted if they meet this criteria);
- ❑ the student’s parents’ unborn child and/or the student’s unborn child, if that child will be born before or during the award year (July 1, 1998 through June 30, 1999) and the student’s parents will provide more than half of the child’s support from the projected date of birth until the end of the award year (if there is a medical determination of a multiple birth, then all expected children can be included); and
- ❑ other persons, if they live with **and** receive more than half of their support from the student’s parent(s) at the time of application and will continue to receive that support for the entire 1998-99 award year (July 1, 1998 through June 30, 1999).



For the purpose of including children in the household size, the “support” test is used (rather than a residency requirement) because there may be situations in which a parent supports a child who does not live with him or her, especially in cases where the parent is divorced or separated. In such cases, the parent who provides more than half of the child’s support may claim the child in his or her household size. 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.

A student should remember that financial information for a stepparent must be reported on the form, and that the stepparent must be included in household size.

NUMBER IN COLLEGE

Questions 45 and 50 ask about the number of household members who, in 1998-99, are or will be enrolled in a postsecondary school for at least 6 credit hours in at least one term, or for at least 12 clock hours per week, even if the student does not complete a term. To be counted, a parent or other household member must be working toward a degree or certificate leading to a recognized education credential at a postsecondary school that is eligible to participate in any of the federal student aid programs. The applicant should **always** be included, even if he or she will be enrolled less than half time.

SECTION E " 1997 INCOME, EARNINGS, AND BENEFITS "

Purpose: *The EFC calculation uses a family's income from this section and the family's household size and other expenses to determine if the family has any discretionary income. If the family has discretionary income, a portion, and only a portion, of that income is included in the EFC as available for the student's educational costs.*

Section E collects information on the base-year income of the parents (if the student is dependent) and of the student and spouse (if applicable), as well as income tax paid, tax-filing status, and the number of exemptions claimed. The base year for applicants for 1998-99 is the 1997 tax year. Each question gives the line reference to the 1997 IRS tax form. Estimated base-year income for the tax year may be used if the family has not yet filed its 1997 tax return. However, if it turns out that the estimated information is incorrect, the student must make corrections when the tax return is filed.

When completing Questions 51 or 63, a student and/or parent must indicate from which tax form they are getting the information for this section of the FAFSA. Sometimes a 1997 IRS Form 1040 is filed even though a 1040A, 1040EZ, or 1040TEL could have been filed. In such an instance, a student or parent should indicate eligibility to file a 1040A, 1040EZ, or 1040TEL by checking Box A if a tax return has been filed or Box C if a tax return has not been filed at the time the FAFSA is completed.

	STUDENT (& SPOUSE)	PARENT(S)
	<i>Everyone must fill out this column.</i>	
The following 1997 U.S. income tax figures are from:	51. (Fill in one oval.)	63. (Fill in one oval.)
A—a completed 1997 IRS Form 1040A, 1040EZ, or 1040TEL	○ 1	A ○ 1
B—a completed 1997 IRS Form 1040	○ 2	B ○ 2
C—an estimated 1997 IRS Form 1040A, 1040EZ, or 1040TEL	○ 3	C ○ 3
D—an estimated 1997 IRS Form 1040	○ 4	D ○ 4
E—will not file a 1997 U.S. income tax return	○ 5 <i>(Skip to question 55.)</i>	E ○ 5 <i>(Skip to 67.)</i>

If a student and his or her parents or spouse, as applicable, don't file and are not required to file a tax return, or have not yet filed it, they still must report their earnings. In this case, W-2 forms and other such records should be used to answer the questions. Worksheet #1 on page 11 of the FAFSA instructions will help students calculate income.

WORKSHEET #1 <i>(Keep this worksheet. Your college may ask to see it.)</i>	For question 53 Student/Spouse	For question 65 Parent(s)
<small>(Note: Use this worksheet to estimate your 1997 Adjusted Gross Income [AGI] if you do not have a tax return.)</small>		
Wages, salaries, tips, etc.	\$ _____ .00	\$ _____ .00
Interest income	+ _____ .00	+ _____ .00
Dividends	+ _____ .00	+ _____ .00
Other taxable income (alimony received, business and farm income, capital gains, pensions, annuities, rents, unemployment compensation, Social Security, Railroad Retirement, and all other taxable income)	+ _____ .00	+ _____ .00
Add all of the numbers in the column	= _____ .00	= _____ .00
Subtract IRS-allowable adjustments to income (payments to IRA and Keogh Plans, one half of self-employment tax, self-employed health insurance deduction, interest penalty on early withdrawal of savings, and alimony paid)	- _____ .00	- _____ .00
TOTAL—Write this amount in question 53 and/or 65:	\$ _____ .00	\$ _____ .00

ALTERNATIVE TAX RETURN FORMS

One of the following 1997 income tax forms may be listed on the FAFSA as an alternative to Form 1040A, 1040EZ, or 1040TEL: the income tax return required by the Commonwealth of Puerto Rico, Guam, American Samoa, the Virgin Islands, the Republic of the Marshall Islands, the Federal States of Micronesia, or Palau.

FOREIGN INCOME

Income earned in a foreign country is treated in the same way as income earned in the United States, if taxes were paid to the central government of that country. A foreign tax return is considered to be an IRS Form 1040 for the purpose of completing the FAFSA. A student should report the value of the foreign income in U.S. dollars (using the exchange rate at the time of application) as the AGI line item and as the “income earned from work” line item.

A student should also include the value of taxes paid to the foreign government on the “U.S. income tax paid” line item. (If the income earned in the foreign country was not taxed by the central government of that country, the income should be reported as untaxed income.)

Form 2555. In many cases, if a student or parent files a return with the IRS for a year in which foreign income was earned, a portion of the foreign income can be excluded on a Form 2555 for U.S. tax purposes. The figure reported on line 43 of Form 2555 (or line 18 of Form 2555EZ) should be reported as “untaxed income” on the FAFSA. The final total for the Form 2555 must not be reported as untaxed income because it contains other exclusions.

INCOME EARNED FROM WORK

The line items for income earned from work (including FWS and other need-based employment earnings) are used to calculate the Social Security tax allowances and the employment expense allowance. The income earned from work will also be used in the EFC calculation as an income factor when no AGI is reported.

UNTAXED INCOME AND BENEFITS

Questions 57-61 and Questions 69-73 include separate line items to collect information about untaxed income and benefits. Line items include Earned Income Credit, Social Security benefits, Temporary Assistance to Needy Families (TANF-Tempo, the state-administered plans that replaced Aid to Families with Dependent Children [AFDC or ADC] payments), and child support because these are the most common forms of untaxed income and benefits. Note that if Social Security benefits are paid to parents on behalf of a student (because the student was under 18 years old at the time), those benefits are reported as the parent's income, not the student's income. If the Social Security check was made payable to the student, it would be reported as the student's income.

1997 Untaxed income and benefits (yearly totals only):

Earned Income Credit (Form 1040–line 56a, Form 1040A–line 29c, or Form 1040EZ–line 8a)	57. \$	<input type="text"/>	.00	69. \$	<input type="text"/>	.00
Untaxed Social Security Benefits	58. \$	<input type="text"/>	.00	70. \$	<input type="text"/>	.00
AFDC/ADC or TANF (<i>See Instructions, pages 6 and 7.</i>)	59. \$	<input type="text"/>	.00	71. \$	<input type="text"/>	.00
Child support received for all children	60. \$	<input type="text"/>	.00	72. \$	<input type="text"/>	.00
Other untaxed income and benefits from Worksheet #2, page 11	61. \$	<input type="text"/>	.00	73. \$	<input type="text"/>	.00

Filers must report VA Educational Work-Study allowances as untaxed income. Also, the instructions now inform applicants not to include contributions to, or payments from, flexible spending arrangements (also known as “cafeteria plans”), because these are essentially employee benefit programs.

Students must be sure that Question 61 or 73, “Other untaxed income and benefits,” does not include any of the benefits already reported in previous line items. Worksheet 2 on page 11 of the FAFSA instructions will help students calculate their untaxed income and benefits.

WORKSHEET #2 <i>(Keep this worksheet. Your college may ask to see it.)</i>	For question 61 Student/Spouse	For question 73 Parent(s)
Amounts from IRS tax forms		
Deductible IRA and/or Keogh payments from Form 1040-total of lines 23 and 28 or 1040A-line 15	\$ _____ .00	\$ _____ .00
Untaxed portions of pensions from Form 1040-line 15a minus 15b and 16a minus 16b or 1040A-line 10a minus 10b and 11a minus 11b (excluding “rollovers”)	+ _____ .00	+ _____ .00
Credit for Federal tax on special fuels from IRS Form 4136-line 9: Total Income Tax Credit (non-farmers only)	+ _____ .00	+ _____ .00
Foreign income exclusion from Form 2555-line 43 or Form 2555EZ-line 18	+ _____ .00	+ _____ .00
Tax exempt interest income from Form 1040-line 8b or 1040A-line 8b	+ _____ .00	+ _____ .00
Other Untaxed Income and Benefits		
Payments to tax-deferred pension and savings plans (paid directly or withheld from earnings) as reported on the W-2 Form. Include untaxed portions of 401(k) and 403(b) plans.	+ _____ .00	+ _____ .00
Welfare benefits (except AFDC/ADC or TANF, which you should have reported in FAFSA question 59 or 71)	+ _____ .00	+ _____ .00
Workers’ Compensation	+ _____ .00	+ _____ .00
Veterans noneducation benefits such as Death Pension, Dependency & Indemnity Compensation (DIC), etc.	+ _____ .00	+ _____ .00
Housing, food, and other living allowances (excluding rent subsidies for low-income housing) paid to members of the military, clergy, and others (including cash payments and cash value of benefits)	+ _____ .00	+ _____ .00
Cash or any money paid on your behalf, not reported elsewhere on this form	+ _____ .00	XXXXXXXXXX
Any other untaxed income and benefits, such as Black Lung Benefits, Refugee Assistance, untaxed portions of Railroad Retirement Benefits, VA Educational Work-Study allowances, or wages not subject to taxation by any government.	+ _____ .00	+ _____ .00
TOTAL—Write this amount in question 61 and/or 73:	\$ _____ .00	\$ _____ .00
Do not include:		
<ul style="list-style-type: none"> • Social Security • Any income reported elsewhere on the form • Money from student financial aid • Food stamps • “Rollover” pensions • JTPA benefits 	<ul style="list-style-type: none"> • Gifts and support, other than money, received from friends or relatives • Veterans educational benefits (GI Bill, Dependents Education Assistance Program, VA Vocational Rehabilitation Program, VEAP benefits, etc.) • Payments received from states for foster care and adoption assistance, under title IV-A or IV-E of the Social Security Act • Contributions to, or payments from, flexible spending arrangements (e.g., cafeteria plans) 	

Any cash support that the student receives from a friend or relative (other than the parent, if the student is dependent) must be reported as untaxed income. Cash support includes payments made on behalf of the student. For instance, if the student’s aunt pays the student’s rent or utility bill, the student must report those payments as untaxed income on the application.

Other items to report here include:

Income exclusions on IRS form. Two examples are the untaxed portion of capital gains and the interest and dividend exclusion. Even though they are not taxed by the federal government, both must be reported on the application for financial aid purposes, as they represent additional financial resources available to the family.

IRA/Keogh, pensions, and insurance settlements. If the family is eligible to exclude its payments to an IRA/Keogh from taxation, those payments are reported as untaxed income. If payments to other pension funds are not excluded for tax purposes, they would already be included in AGI. A student should report money paid into tax-sheltered or deferred annuities (whether paid directly or withheld from earnings). In addition, any payments from a pension, annuity, or insurance settlement must be reported on the application, either as taxable income or untaxed income, as appropriate. The full amount of the distribution must be reported, whether it was a lump-sum or an annual distribution. The only exception to reporting pension distributions as income is when the pension distribution is rolled over to another retirement plan in the same tax year.

Benefits received on behalf of dependents. Any benefits received by the head of household on behalf of persons included in household size (Section D) must be reported as income to the head of the household. However, if members of the household, such as an uncle or grandmother, receive benefits in their own names, those benefits are not reported as income of the head of household. (Remember, such persons may not be included in household size if they receive in their own names more than half of their support through such benefits.) Because student financial aid is not counted as income, tuition benefits a parent receives for a dependent (for example, from the parent's employer) are not included as untaxed income but as a resource and as estimated financial assistance.

Underpayments and overpayments of benefits. The actual amount of benefits received for the year in question must be reported, even if that amount represents an underpayment or an overpayment that may be compensated for in the next year. This parallels the IRS treatment of overpayments of taxable income (such as salary) that must be reported and are taxed as any other income. However, if the underpayment or overpayment was adjusted in the same year, only the net amount received during that year would be reported.

Housing allowances. Housing allowances provided to the parents or student must be reported. This applies to compensation that some people, particularly clergy and military personnel, receive for their jobs. If the parent or student receives money to pay rent, he or she should list the amount of money received. If the parent receives use of a house or

apartment, he or she should report the amount that he or she would pay to rent a comparable house or apartment (market value). Similarly, if the student received free room and board in the base year for a job that was not awarded as student financial aid, the student must report the value of the room and board as untaxed income. (This category, “housing allowances,” excludes rent subsidies for low-income housing.)

Certain income and benefits the student or parent received should not be reported on the application. Worksheet 2 lists some of these:

Student financial aid. Student aid has no effect on the amount of a Pell Grant the student receives and is already taken into account as a resource for campus-based aid and as estimated financial assistance for FFEL and Direct Loans.

Food stamps. Food stamps are regarded as “in-kind” assistance. Benefits received from a federal, state, or local government for the following programs are not counted as untaxed income: Women, Infants, and Children Program; Food Distribution Program; Commodity Supplemental Food Program; National School Lunch and School Breakfast Programs; Summer Food Service Program; and Special Milk Program for Children.

Child-care benefits. The worth of daycare services provided by government or private programs should not be reported, as they are a form of in-kind income. (Note: Some states provide reimbursement for childcare expenses incurred by welfare recipients through AFDC or TANF. These benefits **are** reported on the application because the individual bills the state for the amount of childcare costs incurred while on welfare and is reimbursed on that basis.)

Per capita payments to Native Americans. Per capita payments received in 1997 from the Per Capita Act or the Distribution of Judgment Funds Act should not be reported unless they exceed \$2,000. Thus, if an individual payment were \$1,500, it would not be reported on an application. However, if the payment were \$2,500, the amount that exceeds \$2,000—\$500—would be reported as untaxed income.

Heating/fuel assistance. Exclude from consideration as income or resources any payments or allowances received under the Low-Income Home Energy Assistance Act (LIHEA). (Note: Payments under the LIHEA are made through state programs that may have different names.)

EXCLUSIONS FROM TAXED INCOME

Questions 62 and 74 ask for the total of income and benefits that are to be excluded from taxable income. Worksheet #3 on page 12 of the FAFSA instructions will help a student calculate exclusions for amounts included in taxed income, such as work-study earnings. Because the items listed in this worksheet will be entered on the form and excluded from income in the calculation, the student should not subtract them from the income listed in Questions 53, 55, 56, 65, 67, and 68. These amounts should be calculated on the basis of what was received between January 1, 1997 and December 31, 1997, **not on what was received during the school year.**

Grant and scholarship aid. Any grant and scholarship aid that was reported on the student's 1997 income tax form (because it was in excess of tuition, fees, books, and required supplies) should be reported as an exclusion.

Work-study earnings. Earnings from work are reported as income on the financial aid application as part of AGI or income earned. However, if those earnings are part of a financial aid package and are intended as need-based financial assistance to the student, they are also reported as an exclusion from taxed income.

National and Community Service living allowance and benefits. The National and Community Service Trust Act of 1993 allows people to earn postsecondary tuition funds by filling unmet community needs. Any living allowance or benefits received under this program should be reported as an exclusion. Any earnings received under this program are not reported as an exclusion.

Child-support payments. Any child-support payments made during 1997 by the student, spouse, or parent whose income is reported on the FAFSA should be reported as an exclusion.

WORKSHEET #3 <i>(Keep this worksheet. Your college may ask to see it.)</i>	For question 62 Student/Spouse	For question 74 Parent(s)
<small>(Note: On this worksheet, use amounts for the calendar year from January 1, 1997 to December 31, 1997, rather than amounts for the school year.)</small>		
1. Grant and scholarship aid in excess of tuition, fees, books, and required supplies that you reported or will report on your 1997 income tax return (FAFSA questions 53 and/or 65) and/or as your earned income (FAFSA questions 55–56 and/or 67–68).	\$ _____ .00	\$ _____ .00
2. Taxable earnings from Federal Work-Study or other need-based work programs.	+ _____ .00	+ _____ .00
3. Allowances and benefits received under the National and Community Service Trust Act of 1993 (AmeriCorps awards).	+ _____ .00	+ _____ .00
4. Child support PAID because of divorce or separation, by student & spouse, or by the parent(s) whose income is reported on this form. (Do not include support for children living in your home.)	+ _____ .00	+ _____ .00
5. TOTAL: Write this amount in question 62 and/or 74:	\$ _____ .00	\$ _____ .00

QUESTIONS ABOUT REPORTING INCOME

Some of the most common questions about reporting income that the Department's FSAIC receives follow:

Why do you ask for income information from the year before the student goes to school?

Studies have consistently shown that verifiable income tax information from the base year (1997 for the 1998-99 award year) is more accurate than projected (1998) information when estimating how much the family will be able to contribute during the coming school year.

What should the student do if the family has special circumstances that aren't mentioned in the application?

Talk to the FAA. If a family's circumstances have changed from the base year (1997) due to loss of employment, loss of benefits, or death or divorce, the FAA may decide to adjust data elements used to calculate the student's EFC, which may increase the student's eligibility for student aid.

If the student lives with an aunt, uncle, or grandparent, should that relative's income be reported instead of parental information?

Only if the relative is the student's adoptive parent or legal guardian, as defined on the FAFSA. The student can be considered to be dependent only on his or her parent(s) or guardian and may report only parental/guardian information on the FAFSA. The student must report any cash support given by relatives, but not in-kind support (such as food and housing) from relatives.

What if the student lives with a girlfriend or boyfriend who pays the rent?

The student should not report any information for a friend or roommate unless they are actually married or are considered to have a common-law marriage under state law. The student must report any cash support given by the friend as untaxed income but should not report in-kind support (such as food). The student would have to report as income the rent the roommate paid if the student's name were on the lease and if the roommate were paying the rent on the student's behalf.

When is work considered student aid?

Generally, grants and scholarships are not considered to be taxed or untaxed income. If the student has an ROTC scholarship, a private scholarship, or any other kind of grant or scholarship, that scholarship or grant will be considered as an available resource by the financial aid office when packaging aid but will not be reported as income on the application.

In some cases, the student may have a job that was awarded as need-based financial aid. The income from that job should be reported in Question 62 as an exclusion from income. For income to be excluded, the job has to have been awarded to the student based on financial need. Thus, if the financial aid office gave the student a “Stay-In-School” job or a job as a resident advisor as a part of the student’s aid package, the income from that job would be reported as an exclusion. On the other hand, if the student got a job that was not awarded as part of the student’s financial aid package, the income from that job would not be reported in Question 62 as an exclusion. In addition, the student should report grants and scholarships that are reported on the tax return (because they are in excess of tuition, fees, books, and required supplies). The student should report these items in Question 62 as an exclusion. Worksheet #3 on page 12 of the FAFSA will help students answer Question 62.

What’s the difference between cash support and in-kind support?

Cash support is support given either in the form of money or money that is paid on behalf of the student. The student must report cash support as untaxed income. Thus, if a friend or relative gives the student grocery money, it must be reported as untaxed income. If the friend or relative pays the student’s electric bill or part of the student’s rent, the student must report those payments.

Examples of in-kind support are free food or housing that the family receives. The student usually doesn’t report such support. So, if the student is living rent-free with a friend or relative, the student does not report rental value as untaxed income, unless the student’s name is on the lease.

However, the application does require a student to report the value of housing that the family receives as compensation for a job. The most common example is free housing or a housing allowance provided to military personnel or clergy.

SIMPLIFIED NEEDS TEST

Purpose: Page 7 of the FAFSA instructions includes worksheets A and B, which are used to determine if a student needs to complete Section F. The primary purpose of the “Simplified Needs Test” is to shorten the application process for some students.

Basically, a dependent student does not have to fill out the asset information in Section F if the parents’ AGI was less than \$50,000 **and** the student and his or her parents were not required to use the IRS Form 1040 to file taxes. An independent student qualifies for the Simplified Needs Test and does not have to complete Section F when a student’s (or a married couple’s) AGI is less than \$50,000 **and** the student (or married couple) is not required to file an IRS Form 1040.

An independent student completes Worksheet A; a dependent student completes Worksheet B. Questions 1 and 2 on each worksheet ask about the income used to determine whether the student qualifies for the Simplified Needs Test. Question 1 asks if the AGI from the tax form is \$50,000 or more. Question 2 asks if the total of income earned from work is \$50,000 or more. Both questions list the question numbers from Section E where the income information is provided.

Question 3 on Worksheet A asks whether the student or the student’s spouse is required to complete the 1040. Question 3 on Worksheet B asks whether the parents are required to complete the 1040, while Question 4 asks whether the student is required to complete the 1040. The student should answer “yes” if any one of these people was required to complete the 1040 (for example, to report business income). However, if the student, spouse, or parent completed the 1040 but could have filed the 1040A, 1040EZ or 1040TEL (for example, if he or she filed through a tax preparer that only uses the 1040), the student can answer “no” to question 3 or 4.

If the student answers “yes” to any of the questions on Worksheet A or B, he or she **must** complete Section F of the FAFSA (and the rest of the form).

The Simplified Needs Test will usually increase a student’s eligibility for federal student aid programs because it does not include family assets. However, a student who qualifies for the Simplified Needs Test might need to complete Section F if he or she wants to be considered for certain types of nonfederal student financial aid from the postsecondary school he or she will be attending, the state in which he or she is a legal resident, or the state in which the postsecondary school is located.

WORKSHEET B—STUDENT AND PARENTS

- 1) Is the amount in question 65 \$50,000 or more? Yes No
- 2) Is the total of question 67 plus 68 \$50,000 or more? Yes No
- 3) Are your parents **required** to file an IRS 1040? (**Required** means they were not eligible to file a 1040A or 1040 EZ.) Yes No
- 4) Are you, the student, **required** to file an IRS 1040? (**Required** means you were not eligible to file a 1040A or 1040EZ.) Yes No

If you answered “Yes” to any of the questions, you must complete Section F.
If you answered “No” to all the questions, you may skip Section F. Go on to Section G.

SECTION F " ASSET INFORMATION "

Purpose: *The purpose of Section F is to determine if a family's assets are substantial enough to support a contribution toward a student's COA. Only the net asset value is counted in the need analysis. Any debts against these assets are reported in this section, and they are subtracted from the value of the assets when the EFC is calculated. After the CPS determines the net asset value, the CPS subtracts an asset protection allowance from the parents' assets. The asset protection allowance does not reduce a dependent student's assets, only those of an independent student. Only the amount of the assets that exceeds the allowance is expected to be available for meeting education expenses, and the CPS assesses only a portion of those available assets.*

If a student qualifies for the Simplified Needs Test, he or she does not have to report the family's assets. However, state agencies, private scholarship groups, postsecondary schools, or other groups may require asset information from applicants using the FAFSA if the applicants wish to also apply for nonfederal student aid.

An asset is defined as property owned by the family that has an exchange value. A student does not report as assets possessions such as a car, a stereo, clothes, or furniture.

↳ A family's principal place of residence is not reported as an asset. Neither is a family farm if the farm is the principal place of residence and the family claimed on Schedule F of the tax return that it "materially participated in the farm's operation." In certain instances, however, even if the family farm is incorporated and the family files a corporate return instead of IRS Schedule F, the value and debt of the farm are not reported on the FAFSA. In such cases, the applicant must show evidence that family members own all shares of stock in the corporation and that those family members also reside on the farm.

OWNERSHIP OF AN ASSET

There are several situations where the ownership of an asset may be divided or contested:

Part ownership of asset. If the parent or student has only part ownership of an asset, he or she should report only that 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 should not be reported if the ownership is being contested. For instance, if the parents are separated and they may not sell or borrow against jointly owned property that is being contested, the parent reporting FAFSA information would not list any value for the property or any debts against it. 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 is not required to update this information.

Lien against asset. If there is 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.

OTHER REAL ESTATE AND INVESTMENTS VALUE

Investments include a wide range of investment items, including trust funds, mutual funds, money-market funds, certificates of deposit, stocks, bonds, other securities, installment and land sale contracts (including mortgages held), commodities, and precious and strategic metals. Investments also include money loaned out by the student or parent (the unpaid principal would be reported as an asset). Real estate includes second or summer homes or rental properties the student or parent owns. A student should report the value of these properties and how much is owed on them as of the date the application is signed.

Rental properties. Sometimes the student or parent will claim that rental properties represent a business. Generally, rental properties must be reported as real estate rather than as business assets. 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.)

Business. A student should report the current market value of a business and should include the value of land, buildings, machinery, equipment, inventories, and the like. He or she should not include the family's primary home, even if it is part of the business. In the next question, the student should write in what is owed on the business, including the unpaid mortgage and related debts.

Investment farm. When reporting the current market value of an investment farm, the student should include the value of the land, buildings, machinery, equipment, livestock, and inventories. The farm debt reported should include the unpaid mortgage and related debts, as well as any loan for which farm assets were used as collateral. As noted earlier, a student should not report a family farm as an asset.

➔ **Note that when current market value for a business/farm is reported, it must be the amount for which the business/farm could sell as of the date of the application. Also, if the student or parent is not the sole owner of the business/farm, he or she should report only his or her share of the value and the debt.**

“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 under “Other real estate and investments value.” 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.)

TRUST FUNDS AND TUITION PREPAYMENT PLANS

Trust funds in the name of a specific individual should be reported as that person’s asset on the application. In the case of 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.

As a general rule, the student must report the present value of the trust as an asset, even if the beneficiary’s access to the trust is restricted. If the settlor of a trust has voluntarily placed restrictions on the use of the trust, then the student should report the trust in the same manner as a trust that did not have any specific restrictions. The way in which the trust must be reported varies according to whether the student (or dependent student’s parent) receives or will receive the interest income, the trust principal, or both.

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. Even if the interest accumulates in the trust and is not paid out during the year, the person who will receive the interest must report an asset value for the interest he or she will receive in the future. The trust officer can usually calculate the present 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 to receive the interest income that the student (or parent) will receive from the trust in the future.

Principal only. The student, spouse, or parent who will receive only the trust principal must report the present value of his or her right to the trust principal as an asset. For example, if the principal is \$10,000 and it reverts to a dependent student’s parents when the trust ends in 10 years

but the student is receiving the interest earned from the trust, the student must report as a parental asset the present value of the parents' rights to the trust principal. The present value of the principal is the amount that a third person would pay at the present 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). Again, the present value can be calculated by the trust officer.

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 the trust ends, the beneficiary should report as an asset the present value of the funds (both interest and principal) that he or she is expected to receive when the trust ends.

If a trust has been restricted by court order, the student should not report it as an asset. 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.

↳ **Note that the Michigan Education Trust and all similar tuition prepayment plans are excluded from being reported as assets on the FAFSA. (The annual value of the tuition prepayment should either be used to reduce the student's COA or should be counted as estimated financial assistance.)**

EXCLUDED ASSETS

Some assets that are not reported follow:

Pensions and whole life insurance. Pensions are not counted as assets for application purposes. Of course, when the income from a pension is distributed to the beneficiary, either as a lump sum or in incremental distribution, 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) is not reported as an asset.

Excluded assets for Native American students. The law explicitly excludes reporting any property received under the Per Capita Act or the Distribution of Judgment Funds Act (25 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.).

SECTION G "RELEASES AND SIGNATURES"

Purpose: This section permits a student to list up to six schools that he or she is interested in attending. The Department will send the student's information to all the schools listed in Section G. A student should not write in the name of a school if they don't want the school to receive their application information. A student should list each school's Title IV School Code.

Questions 90-101 ask a student to list up to six schools to which he or she wants the FAFSA data and results sent. They also ask a student to select a housing code that best describes the type of housing he or she expects to live in for each of the schools listed.

Section G "Releases and Signatures"

90-101. What college(s) do you plan to attend in 1998-99?
 (Note: The colleges you list below will have access to your application information. See Instructions, page 8.)

	Title IV School Code	OR	College Name	College Street Address and City		Housing State Code
XX.	0 5 4 3 2 1		EXAMPLE UNIVERSITY	14930 NORTH SOMEWHERE BLVD. ANYWHERE CITY	S T	XX. 2
90.						91.
92.						93.

Housing codes 1—on-campus 3—with parent(s)
 2—off-campus

For a student who wants information sent to more than six schools, there are several ways to make sure all the schools can receive his or her data.

1. The student may list six schools on the application, wait for the SAR, and then correct the SAR by replacing some or all of the original six schools with other schools. After the application is processed, the student may also send a letter to the CPS requesting changes in schools; in this case, all six schools from the original application will be replaced with the schools the student lists in the letter. Corrections made at the same time this is done or subsequently will not be sent to the schools that are replaced with new schools.
2. The student may call the FSAIC (on the toll line, at 1-319/337-5665) to request changes to the schools (institution codes) to which the SAR is sent, or to request a change in his or her address. The student must receive his or her SAR before requesting these changes.
3. If a school that is not listed on the SAR participates in EDE, that school may use the student's DRN number (printed on the SAR) to get the student's data electronically. That school would then replace one of the schools listed in the original application.

The CPS will send data to only six schools at a time for one student. For example, if the student originally listed six schools on the application and then replaced all six with new schools by changing the SAR, only the second six schools would get data from this correction. If the student then made other corrections, only the second set of schools would get the corrected data.

For a school to receive a student's data, the student must list the school's name and Title IV School Code or address. The FAFSA will be processed faster if the student writes in the Title IV School Code and the name of the school. These codes are not in the FAFSA instructions; they are provided in the "Title IV School Code List" that the Department sends to high schools, colleges, and public libraries each fall around the same time the FAFSAs are distributed. The Department also makes this list available on the web at http://www.ed.gov/offices/OPE/t4_codes.html.

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

- the parent(s) is not currently in the United States **and** cannot be contacted by normal means,
- the current address of the parent(s) is not known, or
- the parent(s) has been determined physically or mentally incapable of providing a signature.

The signature of a counselor or FAA serves as a mechanism to get the application through the processing system. The counselor or FAA must provide his or her title in parentheses next to his or her signature and briefly state the reason (only one reason is needed) why he or she is signing for the parent(s). Also, if both parents are unable to sign the application, the counselor or FAA need sign only once in place of both parents. The counselor or FAA assures a minimum level of credibility in the data submitted. However, the counselor or FAA does not assume any responsibility or liability in this process. If the FAA finds any inaccuracies in the information reported, he or she should direct the student to send the SAR through the normal correction process or should submit corrections through EDE.

SECTION H "PREPARER'S USE ONLY"

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 write in his or her name, the firm/company name (if applicable), the firm/company address, and either the firm/company's Employer Identification Number (EIN) (as assigned by the IRS) or the preparer's SSN.

108. Certification: All of the information on this form is true and complete to the best of my knowledge.

1 Preparer's Signature

Date

Question 108 requires the preparer to sign the form.

High school counselors, FAAs, 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.