



Session 114

The Unexplained Side of Resources and Estimated Financial Assistance

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Session Overview

- Statutory and Regulatory Definitions
- How These Items are Handled on the FAFSA
- Special Items of Question
- Guidelines for Handling Any Award



Statutory and Regulatory Definitions

- Income
- Adjusted Gross Income (AGI) and other IRS-defined terms
- Untaxed Income and Benefits
- Exclusions from Income
- Other Financial Assistance
- Resources
- Estimated Financial Assistance



Statutory Definitions (cont'd)

- Total Income (HEA Part F and section 480(a))
 - Base year income (taxed and untaxed) *MINUS*
 - Exclusions (collected on FAFSA Worksheet C), *EQUALS*
 - Total Income



Statutory Definitions (cont'd)

- IRS-defined terms include:
 - Adjusted Gross Income (AGI)
 - Income tax
 - Exemptions
 - Earnings from work

See applicable IRS Publications, such as IRS Publication 17 *Your Federal Income Tax*



Statutory Definitions (cont'd)

- **Untaxed Income and Benefits** (HEA section 480(b))
 - Collected on FAFSA Worksheets A and B

- **Exclusions from Income** (HEA section 480(a)(2) and (e))
 - Collected on FAFSA Worksheet C
 - Some exceptions noted in Worksheet B



Other Financial Assistance (Statutory)

- HEA section 480(j) defines “Other Financial Assistance” and basically includes all other assistance known to the institution
- “Resources” is the term used for “Other Financial Assistance” under the Campus-Based regulations
- The same items are referred to as “Estimated Financial Assistance” under the FFEL and Direct Loan regulations
 - Resources and EFA are the same except EFA excludes AmeriCorps benefits and Chapter 30 Montgomery GI Bill benefits when determining subsidized loan eligibility



Other Financial Assistance (Statutory)

(cont'd)

- Other financial assistance not received under Title IV aid includes all scholarships, grants, loans or other assistance known to the institution including....
 - Veterans' educational benefits student will receive during the award year (HEA section 480(c))
 - 2004-2005 FAFSA questions 46 and 47
 - Report amount expected to receive during school year
 - Veterans' education benefits are not used in EFC calculation
 - HEA requires veterans' education benefits to be counted as Other Financial Assistance
 - AmeriCorps Educational Awards or Post-Service Benefits



Other Financial Assistance (Statutory)

(cont'd)

– Tuition Prepayment Plans

- Specific treatment mentioned in HEA section 480(j)
- Distributions can be treated one of two ways
 - applied to beneficiary's expenses and reduces COA, or
 - if, for accounting purposes, the amount of the distribution must remain part of COA, then, distribution is resource and EFA
- ED has determined that on the FAFSA, the investment value of a tuition prepayment plan is not reported as an asset of either the holder or the beneficiary. Should any portion be included in income, then that amount must be listed on Worksheet C for exclusion from the EFC calculation.



Resources (Regulatory)

- Section 673.5 of the Campus-Based regulations defines Resources as:
 - Funds from Federal Pell Grants
 - Pell eligibility based on eligible student's COA, EFC, and enrollment status
 - Pell eligibility does not include consideration of other awards



Resources (Regulatory) (cont'd)

- William D. Ford Federal Direct Loans;
- Federal Family Education Loans;
- Long-term loans made by the school, including Federal Perkins Loans (short-term emergency loans are not resources);
- Grants, including Federal SEOGs, state grants, and Reserve Officer Training Corps (ROTC) living allowances;



Resources (Regulatory) (cont'd)

- Waivers of tuition and fees;
- Fellowships or assistantships;
- Veterans' educational benefits;
- Income from insurance programs that pay for the student's education;



Resources (Regulatory) (cont'd)

– Net income from need-based employment

- Section 675.2(b) defines need-based employment as employment that is awarded to a student who demonstrates a financial need
- Taxable earnings from need-based employment such as Federal Work-Study, and need-based employment portions of fellowships and assistantships
- Non-need based employment earnings are not considered as a resource. They will be reported as income on the FAFSA for the subsequent award year and will be used in calculating that EFC.



Resources (Regulatory) (cont'd)

- Net income from need-based employment (cont'd)
 - Section 675.25(a) states that net income is the amount of gross earnings minus any taxes and job-related costs
 - Job-related costs are what the student incurs because of the job (e.g., uniforms, transportation, room & board if during period of non-enrollment—but only if not otherwise incurred)



Resources (Regulatory) (cont'd)

- When determining a student's eligibility for campus-based funds, an institution may exclude as a resource any portion of a subsidized FFEL/Direct Loan that is equal to or less than the amount paid under the student's Chapter 30 veterans' education (Montgomery GI Bill—Active Duty) benefits and AmeriCorps education awards or post-service benefits



Estimated Financial Assistance (Regulatory)

- Same items as “Resources” except institution must exclude Chapter 30 veterans’ education (Montgomery GI Bill—Active Duty) benefits and AmeriCorps education awards or post-service benefits from EFA when determining subsidized FFEL/Direct Loan eligibility
- 34 CFR 682.200 and 685.102



How Items are Handled on FAFSA

- Income and Assets
- Untaxed Income and Benefits
 - FAFSA Worksheet A
 - FAFSA Worksheet B
- Exclusions from Income
 - FAFSA Worksheet C



Income and Assets

- FAFSA Data Elements for reporting income and asset information
 - 2004-2005 FAFSA collects taxable income information in questions 32-39 for the student (and spouse) and in questions 70-77 for the parent(s).
 - Asset information is reported in questions 43-45 for student/spouse and questions 81-83 for parent(s).



Untaxed Income and Benefits (from Statute)

- FAFSA Worksheet A
 - Earned Income Credit
 - Additional Child Tax Credit
 - Welfare benefits, including TANF (not on tax form)
 - Untaxed Social Security Benefits (from multiple sources)



Untaxed Income and Benefits (from Statute) (cont'd)

- FAFSA Worksheet B
 - Payments to tax-deferred or sheltered pension and savings plans (paid directly or withheld from earnings)
 - Deductible IRA or Keogh, SEP, and SIMPLE payments
 - Tax-exempt interest income
 - Foreign income exclusion
 - Untaxed IRA distributions and pension payments
 - Credit for Federal tax on special fuels—non-farmers only
 - Child support received (not on tax return)
 - Housing, food, and other living allowances (not on tax return)



Untaxed Income and Benefits (from Statute) (cont'd)

- **FAFSA Worksheet B** (cont'd)
 - Veterans' non-education benefits (not on tax form)
 - Cash support or money paid on student's behalf (not on tax form)
 - Any other untaxed income not reported elsewhere
 - Examples: worker's compensation, VA Educational Work-Study allowances, interest income on Education IRAs, untaxed portions of Railroad Retirement Benefits, Black Lung Benefits, Refugee Assistance, untaxed portion of capital gains, foreign income not taxed by any government, etc.



Statutory Exclusions from Income/Benefits

- Listed on Worksheet C of the FAFSA
 - Student grant and scholarship aid reported to the IRS in student's or parent's AGI
 - Includes grant or scholarship portions of fellowships and assistantships
 - Note: No longer just the amount over tuition, fees, books, and supplies, but any amount of aid that was in taxable income
 - AmeriCorps educational award or post-service benefits (i.e., awards, living allowances, and interest accrual payments)



Statutory Exclusions from Income/Benefits (cont'd)

- Listed on Worksheet C of FAFSA (cont'd)
 - Any portion of tax credit taken under section 25A of the Internal Revenue Code
 - Hope Scholarship tax credit
 - Lifetime Learning tax credit
 - Taxable earnings from need-based employment programs, such as FWS
 - Includes need-based employment portions of fellowships and assistantships



Statutory Exclusions from Income/Benefits (cont'd)

- Listed on Worksheet C of FAFSA (cont'd)
 - Child support paid because of divorce or separation, or as a result of a legal requirement
- *Note: Payments/services received from States for foster care or adoption assistance (Part A or E of Title IV of Social Security Act) are **not** listed on Worksheet C as an income exclusion, because there is a specific instruction **not** to include it on Worksheet B*



Special Items of Question

- Hope Scholarship Tax Credit
- Lifetime Learning Tax Credit
- Student Loan Interest Deduction
- Deduction for Higher Education Expenses
- Employer-Provided Educational Assistance
- Series EE United States Savings Bonds
- Coverdell Education Savings Accounts
- Qualified Tuition Programs (529 Plans)



Hope Scholarship and Lifetime Learning Tax Credit

- HEA specifically excludes Hope and Lifetime Learning tax credits from:
 - Total Income (taxed or untaxed)
 - Resources and EFA



Hope Scholarship and Lifetime Learning Tax Credit (cont'd)

- **Hope Scholarship tax credit**

- Up to \$1,500 for qualified tuition and related expenses paid
- Has income phase-outs
- Can coordinate with other tax benefits such as Coverdell Savings Accounts for uncovered expenses

- **Lifetime Learning tax credit**

- Up to \$2,000 for qualified tuition and related expenses paid
- Student does not need to be pursuing a degree or other credential
- Income phase-out is same as for Hope credit
- Can coordinate with other tax benefits such as Coverdell Savings Accounts for uncovered expenses



Student Loan Interest Deduction

- Eliminates 60-month rule
- Higher income phase-outs
- Any interest paid (no longer just for required interest payments)
- Can deduct up to \$2,500 of interest paid
- Not treated as Resource and EFA
- Not included as Untaxed Income



Deduction for Higher Education Expenses

- Income phase-outs
- Can claim whether or not you itemize deductions
 - formerly had to itemize to receive this type of deduction
- Beneficial to taxpayers who cannot take Hope or Lifetime credits because income too high
- Not treated as Resource and EFA
- Not included as Untaxed Income



Employer-Provided Educational Assistance

- Up to \$5,250 can be provided each year
- Includes undergraduate and graduate/professional education
- Payments do not have to be for work-related courses
- Permanent exclusion through 2010
- Treated as Resource and EFA
- If in income, list on FAFSA Worksheet C



Series EE U.S. Savings Bonds

- Value regarded as asset of the owner of the bond
- Treatment clarified in DCL-04-02 (January 22, 2004)



Coverdell ESAs

- Coverdell Education Savings Accounts (formerly Education IRAs) – see DCL GEN-04-02
 - Qualified higher education and K-12 expenses
 - Higher income phase-outs
 - Coordinate other tax and savings plans benefits
 - Contributions are after-tax (already in AGI), distributions not taxed if used for qualified expenses
 - Distributions generally not included in income in EFC calculation, but value of the account reported as asset **of account owner**
 - Distributions not treated as Resources or EFA



Qualified Tuition Programs

- See guidance in DCL GEN-04-02 (January 22, 2004)
- Two types of Qualified Tuition Programs (529 Plans)
 - 529 Prepaid tuition plans (a/k/a tuition prepayment plans)
 - 529 Savings plans
- Amounts can be rolled over from one plan to another for same student or to different beneficiary
- In addition to the State plans, prepaid tuition plans can now be sponsored by educational institutions
- Distributions are tax free
 - Distributions from educational institution plans were still taxable through December 31, 2003



529 Prepaid Tuition Plans

- Owner of account designates beneficiary in which tuition benefits are prepaid on behalf of beneficiary
- IRS does not tax distributions from state plans
 - Distributions from educational institution plans made on or after January 1, 2004 are tax free
- Value of prepaid plan accounts are not considered an asset in the calculation of the EFC
- Distributions are treated as resource/EFA or reduction to COA
 - If distribution is in income (and used for qualified educational expenses), list as exclusion on FAFSA Worksheet C



529 Savings Plans

- Owner of account designates beneficiary for which funds are deposited to assist with qualified educational expenses (not just tuition)
- IRS does not tax distributions of 529 savings plans
- Value of 529 savings plan account is reported as an asset **of the account owner** in the calculation of the EFC
- Distributions are not considered a resource/EFA



Guidelines for Handling Any Award

- General Rules
- What's in a Name?
- When is an Award Taxable?
- Rules of Thumb for Treatment of Any Award
- Flow Chart for Treatment of Any Award
- Fellowship and Assistantship Examples



General Rules

- HEA states that no financial aid can be included in the calculation of the EFC. Any amount of a student's AGI treated as a resource or EFA must be excluded from the EFC calculation, so as not to be "double counted"
- Whether an award is taxed does not affect whether it is treated as a resource or EFA



What's In A Name?

- Award names: Scholarship, Grant, Stipend, Tuition Reduction, Waiver, Remission, Fellowship, Assistantship, Work-Study, Loan, etc.
- Regardless of what an award is called, what it is according to Federal and State guidelines determines how it is treated for Title IV purposes



What's In A Name? (cont'd)

- If an award is considered employment according to Federal or State guidelines, it must be treated as employment for purposes of determining eligibility for Title IV aid
 - Federal and State employment rules are independent of student aid rules. Generally, employment rules entail issues such as withholding, Social Security Administration program participation, worker's compensation, and unemployment insurance eligibility.



When is an Award Taxable?

- **IRS Publication 970** (now includes former IRS Publication 520)
 - A ***scholarship*** is generally an amount paid for the benefit of a student at an educational institution to aid in the pursuit of studies. The student may be either an undergraduate or graduate.
 - A ***fellowship*** is generally an amount paid for the benefit of an individual to aid in the pursuit of study or research.



When is an Award Taxable? (cont'd)

- **IRS Publication 970 (cont'd)**
 - A scholarship or fellowship is tax-free only if:
 - The student is a candidate for a degree (or program of training leading to gainful employment in recognized occupation) at an accredited educational institution; and
 - It is used to pay qualified education expenses
 - A qualified education expense includes tuition, fees, books, and course-related expenses (e.g. books, supplies, equipment, etc.) required of all students for the courses in a program



When is an Award Taxable? (cont'd)

- IRS Publication 970 (cont'd)
 - If the terms of the grant require its use for other purposes (such as room and board), or if the terms specifically exclude its use for tuition or course-related expenses, then the grant amount is not tax-free
 - Cash scholarship prizes won in a contest are not scholarships if you do not have to use them for educational purposes. A scholarship prize you can use only when enrolled as a degree candidate at an educational institution is a qualified scholarship.



When is an Award Taxable? (cont'd)

- **IRS Publication 970 (cont'd)**
 - Generally, you must include in income the part of any scholarship, fellowship, or tuition reduction that represents payment for past, present, or future teaching, research, or other services. This applies even if all candidates for a degree must perform the services to receive the degree.



Taxable Income Exemption (IRS Pub. 520)

- Health Professions Scholarships
 - Award (or portion of award) representing payment for teaching research or other services if received under:
 - National Health Service Corps Scholarship Program, or
 - Armed Forces Health Professions Scholarship and Financial Assistance Program
 - Treated as resource/EFA and includes scholarships, fellowships, tuition reduction, and stipends
 - Not taxable and not considered income
 - May have accompanying wage that is taxable
 - Do not list on Worksheet C



Rule of Thumb # 1

- If a student receives a form of assistance because he or she is enrolled in postsecondary education, or the assistance is to pay for postsecondary education expenses, then you must determine how it should be treated in the financial aid package
 - Usually treated as resource and EFA



Rule of Thumb # 2

- Award (or portion of award) that is treated as employment and **is** based upon need:
 - **is** considered a resource or EFA;
 - if included in AGI, then list on FAFSA Worksheet C as exclusion from calculation of the EFC



Rule of Thumb # 3

- Award (or portion of award) that is treated as employment and **not** based upon need is:
 - **not** considered a resource or EFA;
 - treated as income just like any other employment earnings of the student
 - that income should be included in the AGI on the student's next financial aid application for inclusion in the calculation of the EFC

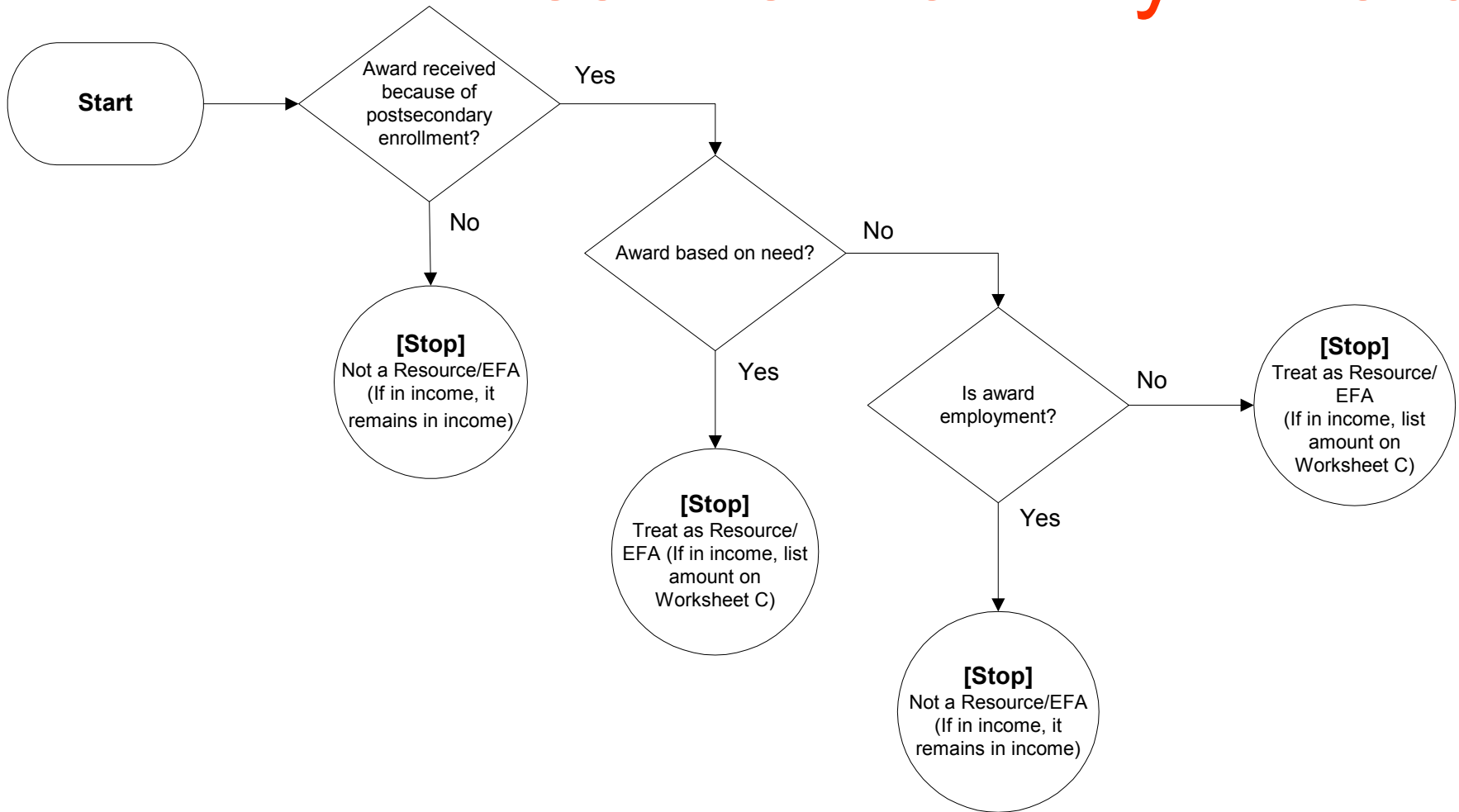


Rule of Thumb # 4

- Award (or portion of award) that is not employment (regardless of whether it was based on need):
 - **is** considered a resource or EFA;
 - if included in AGI, then list on FAFSA Worksheet C as exclusion from calculation of the EFC



Treatment of Any Award





Fellowships & Assistantships Example

- Graduate student receives:
 - \$18,000 fellowship
 - \$15,000 stipend for conducting research
 - \$3,000 tuition waiver with no stipulations
 - \$10,000 summer assistantship
 - Awarded on the condition that the student teach during the summer
 - The school has determined, according to federal and state rules, that the stipend is employment
 - Neither award is based on need



Fellowships & Assistantships Example

(cont'd)

- \$18,000 fellowship
 - School determines (based on federal and state rules) no part of fellowship (neither the \$15,000 stipend nor the \$3,000 tuition waiver) is considered employment
 - According to IRS guidelines, stipend is taxable because it requires some form of service
 - Tuition waiver is not considered taxable by IRS
 - Because no part of fellowship is employment, all of it must be included as resources and EFA
 - Portion reported as income (stipend) on tax return next year listed as exclusion from EFC calculation by using Worksheet C of the subsequent year's FAFSA



Fellowships & Assistantships Example

(cont'd)

- \$10,000 summer assistantship
 - Considered employment by the school according to federal and state rules
 - Not included in resources and EFA, because it is considered non-need-based employment
 - It will be included as income on the student's tax return and in the EFC calculation for the subsequent year's FAFSA
 - This amount should **not** be reported on Worksheet C, because the award was not included as a resource and EFA



Resident Advisor Example

- Undergraduate student receives non-need-based Resident Advisor (RA) award:
 - \$300 per month stipend for residence hall duties
 - \$5,000 RA grant, which covers the cost of room and board
- School considers, according to federal and state rules, that stipend is employment and grant is also part of employment compensation
- Stipend is included in taxable income, but \$5,000 grant is not because of IRS exception for room/ board



Resident Advisor Example (cont'd)

- Monthly RA stipend:
 - Non-need-based employment
 - Treated as taxable income
 - Not a resource or EFA for current year
 - Amount of stipend reported as taxable income remains in EFC calculation for following year because it is not need-based



Resident Advisor Example (cont'd)

- \$5,000 RA grant:
 - Non-need-based employment
 - Treated as untaxed income
 - Not a resource or EFA for current year
 - Amount of RA grant included as untaxed income in EFC calculation on following year's FAFSA



Additional Information

www.house.gov/rules/1836_sum.pdf

- Summary of the *Economic Growth and Tax Relief Reconciliation Act of 2001*

www.irs.gov/forms_pubs/pubs.html

- IRS Publication 17, *Your Federal Income Tax*
- IRS Publication 590, *Individual Retirement Arrangements (IRAs)*
- IRS Publication 970, *Tax Benefits for Higher Education*



Contact Information

We appreciate any feedback and comments.

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