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FAFSA – IRS Match

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Today's Topics

- **Introductions**
- **Background**
- **Legal Status**
- **Challenges**
- **Implementation Ideas**
- **What's Next?**

Introductions

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Two Words to Remember --

"Uncertainty"

" Collaboration"

Background

Why Is a FAFSA – IRS Match Important?

THE RIGHT MONEY

TO THE RIGHT PEOPLE

AT THE RIGHT TIME

IN THE RIGHT WAY

- **More than $300 million per year in Pell Grant overawards**
- **Included in President's Management Agenda**
- **Included in Department's Strategic Plan**
- **Savings in President's Budget**

Is a FAFSA – IRS Match a Big Deal?

YES!!!

A match of FAFSA data with tax data from the IRS will be a major event in the history of student aid program administration

As significant as –

- **Creation of the Pell Grant Program**
- **Common Form**
- **Single Need Analysis Methodology**
- **Unsubsidized Loans**
- **Direct Loans**

What is the FAFSA – IRS Match?

A FAFSA – IRS Match would compare selected data from an applicant's FAFSA with comparable data submitted by the taxpayer to the IRS:

- **Adjusted Gross Income**
- **Taxes Paid**
- **Total Earnings from Employment**
- **Filing Status (e.g., single, married)**
- **Type of Tax Form (e.g., 1040, 1040A, 1040EZ)**

Legal Status

Why Don't We Already Have a FAFSA – IRS Match?

- **1998 HEA Reauthorization**

- **Internal Revenue Code Section 6103**

- **1998 IRS Restructuring and Reform Act**

  - **Confidentiality Studies**
    - **Treasury Department**
    - **Joint Committee on Taxation**

Confidentiality Studies

- **"If (a business case can be made), section 6103 should be amended to permit disclosure of necessary items of information for income verification … as contemplated by the HEA."**

- **"… if adopted, this provision should permit access by contractors, subject to (certain) limitations."**

- **"The staff of the Joint Committee recommends that the present-law disclosure rules for using contractors for nontax administration purposes should not be expanded."**

What is the Legal Status of a FAFSA – IRS Match?

- **HR 3613 – the "Student Aid Streamlined Disclosure Act of 2003"**

- **Introduced November 21, 2003**

- **House Ways and Means Subcommittee on Oversight**

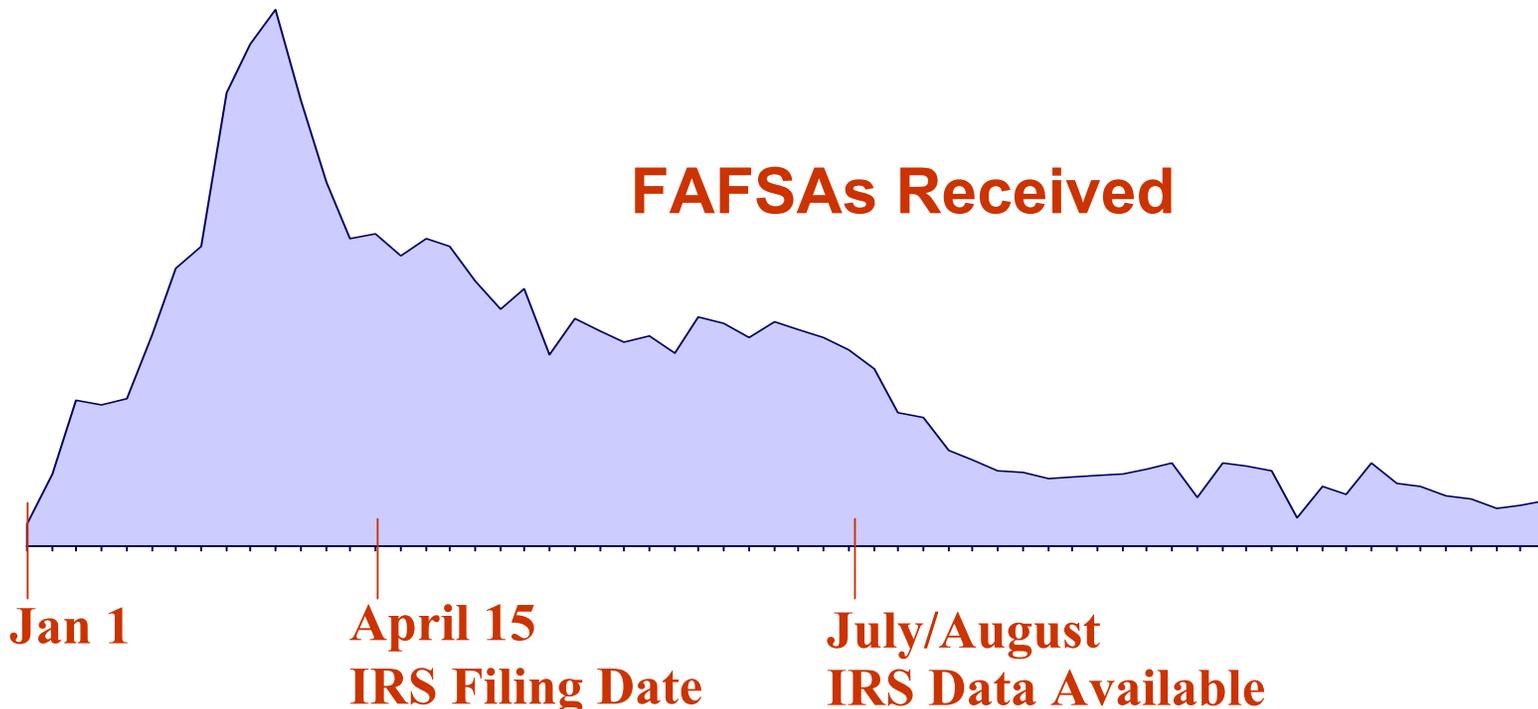- **Invitation to Comment by January 23, 2004**

- **Outlook**

Challenges

Challenges to Implementing a FAFSA – IRS Match?

- **Calendar Issues**
  - **Tax Year and IRS Filing vs FAFSA Processing**
  - **Availability of Tax Data and Award Year**

FAFSAs Received

Jan 1

**April 15
IRS Filing Date**

**July/August
IRS Data Available**

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Change of Application Process Mindset

FAFSA is a "two-step" process

- **File FAFSA as soon as possible**

- **Update tax data as soon as returns are filed with IRS**

Challenges to Implementing a FAFSA – IRS Match?

- **Legal Authority Issues**
  - **Use of Contractors**
  - **Release of Actual Data vs. "Fact of Discrepancy" to schools**
  - **School's Third Party Servicers**
  - **Informing Applicant/Taxpayer**

Challenges to Implementing a FAFSA – IRS Match?

- **Other Issues**
  - **SSN Mismatches**
  - **Late Tax Filers**
  - **Changes in Marital Status**
  - **Amended Returns**
  - **Non-filers**
  - **Applicants from Puerto Rico**
  - **Applicants with Foreign Tax Returns**
  - **Subsequent Corrections**
  - **Professional Judgment Changes**

What is the School's Role?

- **Help inform applicants of change**
- **Communicate with applicant**
- **Ensure that updates are submitted**
- **Request documentation**
- **Notify ED/FSA of resolution**
- **Hold disbursement**
- **Collect/Report overpayment**

What is the School's Role?

Disbursements

- **Responsible Once Notified of Problem**
  - No additional disbursements
  - Assist in recovering overpayments
  - Possible tolerance for upcoming disbursements

Verification

- **IRS Match ultimate verification**
- **Modify regulations**
- **Allow schools great flexibility**

Implementation Ideas

How Would a FAFSA – IRS Match Work?

- Start with demonstration match

- Six steps in the income verification process
  - **Step 1:** Match FAFSA data with IRS data
  - **Step 2:** Identify discrepancies
  - **Step 3:** Determine impact of discrepancies
  - **Step 4:** Notify parties of IRS match results
  - **Step 5:** Perform resolution and hold or recover payments
  - **Step 6:** Analyze process

Implementation Challenges

Step 1: Match FAFSA data with IRS data

- Timing of availability of IRS data
- Selecting sample for matching in initial demonstration
  - By Schools
  - By Students
- Timing and frequency of matching
- Limits on use of contractors

Implementation Challenges

Step 2: Identify discrepancies

- Provide file of applicants to IRS

- "Material discrepancy" defined as greater of $100 or 1% of the item being matched

Implementation Challenges

Step 3: Determine impact of discrepancies

- What constitutes a discrepancy that must be resolved?
  - Change in EFC
  - Change in award amount

Implementation Challenges

Step 4: Notify parties of IRS match results

- How will students and parents be notified of discrepancies?

- How will schools be notified?

- Will ED notify parties only when there is a discrepancy?

- Release of data to Third Party Servicers prohibited

- Use of contractors in notification process

Implementation Challenges

Step 5: Perform Resolution: Hold Payments or Recover Overpayments

- Resolve possible discrepancies
    - Marital status changes
    - SSN mismatches
    - Professional judgment changes
- How to minimize disruptions to aid delivery?

Implementation Challenges

Step 6: Analyze process

- Data

- School feedback

What's Next?

What's Next?

- Legislative process
- Continue to explore ways to minimize burden
  - ED is developing different approaches to conducting FAFSA – IRS Match
  - ED has started asking for feedback from the financial aid community about match implementation
  - ED plans to involve the community throughout the match implementation process

Comments, Suggestions, Offers

We appreciate your feedback, comments, and suggestions. Please e-mail your thoughts and ideas to:

E-mail: irsmatch@ed.gov