

Expected Family Contribution (EFC)

The EFC is a measure of how much the student and his or her family can be expected to contribute to the cost of the student's education for the year. The EFC is calculated according to a formula specified in the law. In this chapter, we describe the EFC formula in detail.

GENERAL INFORMATION

All the data used to calculate the EFC come from the information the student provides on the FAFSA. The CPS analyzes the information from the FAFSA and calculates the EFC. The EFC measures the family's financial strength on the basis of the family's income and assets. The EFC formula also takes into account the family's expenses relative to the number of persons in the household and how many of them will be attending college during the award year.

Every year, the Department publishes updated tables used in the EFC calculation. For the 2002-2003 award year, these tables were published in the *Federal Register* on May 31, 2001.

The law provides three different formulas to calculate the EFC: one for dependent students, one for independent students without dependents other than a spouse, and one for independent students with dependents other than a spouse. In addition to the three regular formulas, the law provides for special calculations of the EFC in certain circumstances.

SIMPLIFIED FORMULA

The simplified formula is basically the same as the regular formula, except that asset information isn't considered in the calculation. A dependent student qualifies for the simplified calculation if

- neither the student nor his parents were required to file an IRS Form 1040* and
- the parents' AGI (for taxfilers) or income earned from work (for nonfilers) was less than \$50,000.

Basic EFC formulas

- ➔ Dependent students
- ➔ Independent students
- ➔ Independent students with dependents

Special calculations

- ➔ Simplified formula (no assets)
- ➔ Automatic zero EFC
- ➔ Other than 9-month enrollment

HEA Sec. 474, 475, 476, 477, 478, 479

* A family member who was not required to file the IRS Form 1040 may have filed the 1040 solely to claim an education tax credit—this does not disqualify the applicant for purposes of the simplified formula or the automatic zero EFC.

Other Tax Forms

A foreign tax return counts as an IRS Form 1040 to determine if one qualifies for the simplified formula and the automatic zero EFC. A tax return for Puerto Rico, Guam, American Samoa, the Virgin Islands, Marshall Islands, the Federated States of Micronesia, or Palau counts as an IRS Form 1040A or 1040EZ for the purposes of qualifying for the simplified formula and the automatic zero EFC.

Asset Information Not Reported on FAFSA

If the student doesn't provide any asset information and qualifies for the simplified formula, her application will still be processed normally. The student will only receive one EFC, which will be produced by the simplified formula. However, if the student doesn't qualify for the simplified formula, her application will be rejected and the student will have to submit asset information before the CPS will calculate an EFC.

Automatic Zero EFC

Sec. 479(c)

* A family member who was not required to file the IRS Form 1040 may have filed the 1040 solely to claim an education tax credit—this does not disqualify the applicant for purposes of the simplified formula or the automatic zero EFC.

Earned Income Credit

The Department encourages students and parents of dependent students who are eligible for the EIC to file a tax return and claim it.

An independent student qualifies for the simplified calculation if

- neither the student nor spouse was required to file an IRS Form 1040* and
- the student's and spouse's combined AGI (for taxfilers) or income earned from work (for nonfilers) was less than \$50,000.

The application asks for asset information from all students, though the CPS will perform a calculation using the simplified formula (ignoring the asset data) if the student qualifies. If the asset data is provided, the CPS will also perform a full calculation using the asset data. A student who qualifies for the simplified formula and provides asset data will have two EFCs: the EFC from the simplified formula is called the primary EFC and is printed on the front of the student's SAR, while the EFC from the full calculation is called the secondary EFC and is printed in the FAA Information section. In all cases the secondary EFC will be equal to or higher than the primary EFC.

AUTOMATIC ZERO EFC

The law also provides for an automatic zero EFC for some students (they will not receive a primary or secondary EFC). The CPS will assign a zero EFC to a dependent student if

- neither the parents nor the student was required to file an IRS Form 1040,* and
- the parents' combined AGI (for taxfilers) or combined income earned from work (for nonfilers) is \$13,000 or less.

An independent student with dependents other than a spouse automatically qualifies for a zero EFC if:

- neither the student nor spouse was required to file an IRS Form 1040,* and
- the student's and spouse's combined AGI (for taxfilers) or combined income earned from work (for nonfilers) is \$13,000 or less.

Independent students with no dependents other than a spouse do not qualify for an automatic zero EFC.

ALTERNATE EFCs

The law specifies how the EFC of a dependent student must be modified if the student is going to enroll for other than a 9-month period. The EFC found in the upper-right-hand corner of the first page of the output document is based on a 9-month enrollment period and should always be used for awarding a Pell Grant, even if the student is attending for a longer or shorter period. The second section

of the “FAA Information” area contains a table of alternate primary and secondary EFCs for periods of one to twelve months. These are alternate EFCs that you must use to award aid if the student is attending for less than nine months and that you may use for more than nine months.

FORMULA A — DEPENDENT STUDENTS

The EFC for a dependent student is calculated using the FAFSA information for the student and his parents. The CPS calculates a parents’ contribution, a student’s contribution from income, and a student’s contribution from assets; the EFC is the sum of these three. The parents’ contribution includes a contribution from assets.

Under the simplified formula the parent’s contribution doesn’t include a contribution from assets, and the student’s contribution from assets isn’t counted.

At the end of this section are worksheets and tables that can be used to calculate the EFC for a dependent student. For those items that are taken from the FAFSA, the worksheets indicate the corresponding FAFSA/SAR line numbers. On the worksheets for the simplified formula, the parts of the calculation that aren’t used are greyed out.

Parents’ contribution

There are three basic steps in calculating the parents’ contribution. First, the parents’ available income is determined. Then, the parents’ contribution from assets is calculated. Finally, the parents’ contribution is calculated using the available income, the contribution from assets, and the number in college.

▼ *Parents’ available income.* The parents’ available income is calculated by subtracting certain allowances from the parents’ total income. These allowances account for certain nondiscretionary expenses, such as taxes and basic living expenses. Once a minimum level of support has been provided for those expenses, the formula assumes that the remaining income is available for discretionary purposes, including paying for a postsecondary education. The available income can be a negative number.

The total income is the sum of the taxable and untaxed income, minus amounts reported in the income but excluded from the formula. If the parents are taxfilers, the parents’ AGI as reported on the FAFSA is the amount of the parents’ taxable income used in the calculation. If the parents are not taxfilers, the calculation uses the parents’ reported income earned from work. Note that “earned income credit” is included as part of total untaxed income and benefits only if the parents are taxfilers (the Department recommends that eligible persons file a tax return and receive the EIC). Total income can be a negative number.

Formula for dependent students

- **Parents’ Contribution**
Parents available income
Parents contribution
from assets
Number in college
- **Student’s Contribution
from Income**
- **Student’s Contribution
from Assets**

The sum of the following allowances are used to reduce the parents' total income:

- **U.S. income tax paid.** Use the amount reported on the FAFSA. Non-taxfilers don't receive this allowance. If this is a negative amount, it is set to zero.
- **State and other tax allowance.** Use Table A1. This allowance is a percentage of parents' total income and approximates the average amount paid in state and other taxes. The percentage varies according to the state and according to whether the parents' total income is below \$15,000 or is \$15,000 or more. The state used is the parents' state of legal residence reported on the FAFSA. If this item is blank or invalid, the student's reported state of legal residence is used. If both are blank or invalid, the state in the student's mailing address is used. If all three are blank or invalid, the rate shown in Table A1 for a blank or invalid state is used (4% for total income below \$15,000; 3% for total income of \$15,000 or more). If the allowance is a negative amount, it's set to zero.
- **Father's and mother's Social Security tax allowance.** The father's and mother's Social Security taxes are calculated separately by applying the tax rates shown in Table A2 to the father's income earned from work and the mother's income earned from work in 2001 (as reported on the FAFSA). The total allowance for Social Security taxes is never less than zero.
- **Income protection allowance.** Use Table A3. This allowance is a provision for the basic living expenses of a family. The allowance varies according to the number in the parents' household and the number in college in 2002-2003, as reported on the FAFSA. In general, a school can assume that 30% of the income protection allowance amount is for food, 22% for housing, 9% for transportation expenses, 16% for clothing and personal care, 11% for medical care, and 12% for other family consumption. The income protection allowance used for a particular student is provided as one of the intermediate values in the FAA Information Section of the output document (labeled as "IPA").
- **Employment expense allowance.** Families with two working parents and one-parent families have extra expenses that must be considered, such as housekeeping services, transportation, clothing and upkeep, and meals away from home. This allowance recognizes those extra expenses. For two working parents, the allowance is 35% of the lesser of the father's income earned from work (question 76) or the mother's income earned from work (question 77), but may not exceed \$3000. For one-parent families, the allowance is 35% of the parent's income earned from work, also not to exceed \$3000. If a student's

parents are married and only one parent reports an income earned from work, the allowance is zero. The employment expense allowance is never less than zero.

▼ *Parents' contribution from assets.* In the full formula, the assets of parents of a dependent student are considered in order to fully measure the family's ability to contribute toward postsecondary educational costs. The formula evaluates the family's asset situation and determines a "contribution from assets," an amount that is combined with available income to give an accurate picture of the family's financial strength. In the simplified formula, the assets aren't counted at all.

First, the parents' **net worth** is calculated by adding assets reported on the FAFSA. The net worth of a business or a farm is adjusted to protect a portion of the net worth of these assets. Use Table A4 to calculate the amount to be used.

Second, the parents' **discretionary net worth** is calculated by subtracting the education savings and asset protection allowance (Table A5) from the parents' net worth. As is the case with income, this is done to protect a portion of assets. The allowances for ages 40 through 65 approximate the present cost of an annuity which, when combined with Social Security benefits, would provide at age 65 a moderate level of living for a retired couple or single person. As shown in Table A5, the allowance increases with the age of the older parent (as reported on the FAFSA) to indicate the cost of purchasing such an annuity at a given age. Discretionary net worth may be less than zero.

Finally, the discretionary net worth is multiplied by the conversion rate of 12% to obtain the **parents' contribution from assets**, which represents the portion of the value of parents' assets that may be considered to be available to help pay for the student's postsecondary education. If the contribution from assets is less than zero, it is set to zero.

▼ *Calculation of parents' contribution.* This is the final step in determining the parents' contribution. The parents' available income and contribution from assets are added together to determine the parents' adjusted available income. The adjusted available income can be a negative number. The total parents' contribution from adjusted available income is calculated from the amounts and rates in Table A6 and is the total amount parents are expected to contribute toward all of their family's postsecondary educational costs. The rates in Table A6 increase from 22% to 47% as the adjusted available income increases. The rate is based on the principle that as income increases beyond the amount needed to maintain a basic standard of living, the portion used for family maintenance decreases, while the portion available for discretionary purposes increases. Therefore, a progressively larger amount of income may be contributed toward postsecondary educational costs with less effect on the maintenance of the family.

The parents' contribution for the individual student is calculated by dividing the total parents' contribution from adjusted available income by the number in college in 2002-2003, as reported on the FAFSA. Parents are not included in the number attending college.

Alternate EFCs for other than 9-month enrollment

The standard parents' contribution is for a 9-month enrollment period. For an enrollment of less than 9 months, the parents' contribution is prorated according to the number of months of enrollment. The student's contribution from available income is also prorated and then added to the student asset contribution, which is not prorated. For an enrollment of more than 9 months, the parents' contribution is calculated by adjusting the standard 9-month formula on page 3 of Worksheet A of the EFC worksheets, and the student's contribution remains at the 9-month amount.

Student's contribution from income

To determine the student's contribution from income, the student's available income (AI) is first calculated by subtracting total allowances from the student's total income. The AI is then assessed at a rate of 50% to obtain the student contribution from available income. If the student contribution from available income is less than zero, it's set to zero.

▼ ***Student's available income.*** The available income is the student's total income minus total allowances. As with the parents' income information, the student's total income is calculated using information from the student's FAFSA. The student's total income is the sum of the student's taxable and untaxed income, minus amounts reported in the income but excluded from the formula (see the *Application and Verification Guide* for more on these exclusions). If the student is a taxfiler, the student's AGI as reported on the FAFSA is the amount of taxable income used in the calculation. If the student is not a taxfiler, the calculation uses the student's reported income earned from work. Total income may be a negative number.

The allowances are calculated by adding the following:

- **U.S. income tax paid.** Use the amount reported on the FAFSA. Non-taxfilers don't receive this allowance. If this is a negative amount, it's set to zero.
- **State and other tax allowance.** Use Table A7. This allowance is a percentage of the student's total income. The percentage varies according to the state. The state to be used is the student's state of legal residence reported on the FAFSA. If that item is blank or invalid, the state in the student's mailing address is used. If both items are blank or invalid, the parents' state of legal residence is used. If all three items are blank or invalid, the rate for a blank or invalid state in Table A7 is used (2%). If the allowance is a negative amount, it's set to zero.

- **Social Security tax allowance.** The student's Social Security taxes are calculated by applying the tax rates shown in Table A2 to the student's income earned from work in 2001 (as reported on the FAFSA). The total allowance for Social Security taxes is never less than zero.
- **Income protection allowance.** The income protection allowance for a dependent student is \$2,330.
- **Parent's negative AAI.** To recognize that a student's income may be needed to help support the family, the EFC calculation now allows a parent's negative adjusted available income (AAI) to reduce a dependent student's contribution from income. Because the student's contribution from income cannot be negative, this will not affect the student's contribution from assets.

Student's contribution from assets

The student's assets are treated the same way as the parents' assets with three differences — there is no adjustment to the net worth of a business or farm, there is no education savings and asset protection allowance, and net worth is assessed at the rate of 35%. Remember that under the simplified formula there's no student contribution from assets.

The student's net worth is calculated by adding assets reported on the FAFSA (negative amounts are converted to zero for this calculation). Then, the student's net worth is multiplied by the conversion rate of 35% to obtain the student's contribution from assets, which represents the portion of the value of student's assets that may be considered to be available to help pay for the student's postsecondary education.

Kitty, Lydia, and Owen: Dependent students

Parents' Total Income

Kitty and Lydia are sisters, and they are both dependent students. Their parents' AGI is \$60,000; their father's income earned from work is \$30,000, their mother's income earned from work is \$25,000, and the parents reported \$5,000 of taxable income from other sources. They also listed \$2,000 in untaxed income on the FAFSA in question 78. Their total taxable and untaxed income is \$62,000. They reported no exclusions on the FAFSA in question 80; therefore, their total income is \$62,000. After the application was filed, Kitty told the FAA at Bennet that her mother was no longer employed and didn't have any other income. The FAA decided to use her professional judgment to adjust Kitty's application data (see the Application and Verification Guide). The FAA reduces the AGI to \$35,000 and the mother's income earned from work to zero. She doesn't make any other changes to income items. Therefore, the parents' total income used for Kitty's EFC will be \$37,000.

Owen is a dependent student. His father's income earned from work is zero, since he had business losses of -\$123,000, and his mother's income earned from work is \$40,000. So their AGI is -\$83,000, which is set to zero. Yet Owen doesn't qualify for an automatic zero EFC or the simplified formula because his parents were required to file a 1040. His parents reported \$20,000 in untaxed income and benefits in question 79 on the FAFSA and reported no exclusions in question 80. Their total income is \$20,000.

Parents' Allowance and Available Income

Kitty and Lydia's parents reported on the FAFSA that they paid \$5,900 in U.S. income tax. The family lives in Illinois, so the percentage they use for calculating state and local taxes is 5%. The allowance for state and local taxes is \$62,000 (the parents' total income) x 5%=\$3,100. The father's Social Security tax allowance is \$30,000 x 7.65%=\$2,295; the mother's Social Security tax allowance is \$25,000 x 7.65%=\$1,913. They reported a household size of six, with two household members in college, so their income protection allowance is \$25,790. Their employment expense allowance is \$3,000, because 35% of the mother's income is \$8,750. Therefore, the total allowances used in calculating Lydia's EFC are \$41,998. When the FAA at Bennet adjusted the AGI and mother's income for Kitty, she also changed the income tax paid to \$2,160. With the reduced total income, the allowance for state and local taxes is \$1,850 (\$37,000 x 5%). The father's Social Security tax allowance is still \$2,295, but the mother's allowance is zero, because she has no income. The income protection allowance is still \$25,790. Because only one parent has income from work, the employment expense allowance is zero. The total allowances used in calculating Kitty's EFC are \$32,095. For Lydia's EFC, the parents' available income is \$20,002. For Kitty's EFC, the parents' available income is \$4,905.

Owen's parents reported zero U.S. income tax paid on the FAFSA. Their total income is \$20,000; using Table A1 to calculate a state and local tax allowance yields \$20,000 x 6% (they live in Idaho) or \$1,200. His father's Social Security tax allowance is zero because he had no income earned from work. His mother's Social Security tax allowance is \$40,000 x 7.65%=\$3,060. They reported a household size of four on the FAFSA, with one in college, so their income protection allowance is \$20,320. Because only one parent is employed, their employment expense allowance is zero. The total allowances used in calculating Owen's EFC are \$24,580. Owen's parents' available income is -\$4,580 (\$20,000 - \$24,580).

Contribution from Parental Assets

Kitty and Lydia's parents reported \$2,000 for cash, savings, and checking on the FAFSA. They didn't report any other assets. Their net worth is \$2,000. The father, the older parent, is 50, so their education savings and asset protection allowance is \$44,000. Their discretionary net worth is -\$42,000; multiplying that amount by the conversion rate of 12% results in a negative number. Because the result is negative, the parents' contribution from assets is zero. After the FAA at Bennet reduced the AGI on Kitty's application because her mother isn't employed, Kitty qualified for the simplified needs test, and would receive both a primary (simplified) EFC and the secondary EFC from the full formula. However, because the parents' contribution from assets is zero, the primary EFC and the secondary EFC will be the same.

Owen's parents reported \$15,000 for cash, savings, and checking on the FAFSA. They also reported \$40,000 for the net worth of their investments, and \$550,000 for the net worth of their business. The adjusted net worth of the business (the amount to be used in the EFC calculation, see Table A4) is $\$244,000 + (\$550,000 - \$470,000) = \$324,000$. Owen's parents' net worth is \$379,000. His mother, the older parent, is 60, so their education savings and asset protection allowance is \$58,300. Their discretionary net worth is $\$379,000 - \$58,300 = \$320,700$. Multiplying this by the conversion rate of 12%, Owen's parents' contribution from assets is \$38,484.

Parents' Contribution

For Lydia's EFC, her parents' available income is \$20,002 and their contribution from assets is zero, so their adjusted available income is \$20,002. The total parents' contribution is $\$4,216 + (\$2,202 \times 34\%) = \$4,965$. Because the number of household members in college is two, the parents' contribution for Lydia is \$2,483. For Kitty, the parents' available income is \$4,905. Because Kitty qualifies for the simplified formula, the parents' contribution is calculated both with and without including assets; however, because their contribution from assets is zero, the two will be the same. For each formula, their adjusted available income is \$4,905. The total parents' contribution is $\$4,905 \times 22\% = \$1,079$, and the parents' contribution for Kitty is \$540.

Owen's parents' available income is -\$4,580, and their contribution from assets is \$38,484. This makes their adjusted available income \$33,904. According to Table A6, the total parents' contribution is $\$6,476 + 47\% \times (\$33,904 - 23,900) = \$11,178$.

Student's Total Income

Kitty reported an AGI and income earned from work of \$6,000, and untaxed income of \$1,000. She also had \$2,000 of exclusions from income that she reported on the FAFSA. Her total income is \$5,000. Lydia didn't file a tax form, but reported that she earned \$3,250 from work. She also reported \$1,750 in untaxed income, and no exclusions. Her total income is also \$5,000.

Owen had an AGI of -\$15,000 (which gets set to 0) but reported income earned from work of \$9,000. He also had untaxed income of \$8,000 and no exclusions. His total income is \$17,000.

Student's Allowances and Contribution from Income

Kitty reported income tax paid of \$264. Her state of legal residence is Illinois, so her state and other tax allowance is $\$5,000 \times 2\% = \100 . Her Social Security tax allowance is $\$6,000 \times 7.65\% = \459 . With the \$2,330 income protection allowance, and zero allowance for parents' negative income, her total allowances equal \$3,155. Her available income is $\$5,000 - \$3,155 = \$1,845$, and her contribution from income is $\$1,845 \times 50\% = \923 .

Lydia didn't report any income tax paid. She also lives in Illinois, so her state and other tax allowance is $\$5,000 \times 2\% = \100 . Her Social Security tax allowance is $\$3,250 \times 7.65\% = \249 . With the \$2,330 income protection allowance, and zero allowance for parents' negative income, her total allowances equal \$2,679. Her available income is $\$5,000 - \$2,679 = \$2,321$, and her contribution from income is $\$2,321 \times 50\% = \$1,161$.

Owen reported zero U.S. income tax paid on the FAFSA. Because his total income is \$17,000, using Table A7 to calculate a state and local tax allowance yields \$850. Owen's Social Security tax allowance is $\$9,000 \times 7.65\% = \689 . With the \$2,330 income protection allowance, his total allowances equal \$3,869. His available income is $\$17,000 - \$3,869 = \$13,131$; multiplying his available income by 50% yields \$6,566.

Student's Contribution from Assets

Kitty reported \$50 in cash, savings, and checking, and no other assets. Her net worth is \$50, and her contribution from assets is $\$50 \times 35\% = \18 . Because she qualified for the simplified formula, she receives an EFC without this amount added as well as an EFC that includes the contribution from assets.

Lydia reported \$500 in cash, savings, and checking, and no other assets. Her net worth is \$500, and her contribution from assets is $\$500 \times 35\% = \175 .

Owen reported \$3,000 for cash, savings, and checking. He also reported \$5,000 for the net worth of his investments and \$20,000 for his share of his parents' business. His net worth is \$28,000, and his contribution from assets is $\$28,000 \times 35\% = \$9,800$.

Final EFC Examples

After the FAA at Bennet has adjusted Kitty's data, her EFC is \$540 (parents' contribution) + \$923 (contribution from income) = 1,463. Because she qualified for the simplified formula, this EFC doesn't take her or her parents' assets into account. Her secondary EFC is \$540 (parents' contribution) + \$923 (contribution from income) + \$18 (contribution from assets) = 1,481. Lydia's EFC is \$2,483 (parents' contribution) + \$1,161 (contribution from income) + \$175 (contribution from assets) = 3819.

Owen's EFC is \$11,178 (parents' contribution) + \$6,606 (contribution from income) + \$9,800 = 27,584.

*See Separate PDF FILE for
the Electronic Version of the
EFC Dependent Formula A
Worksheets*

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FORMULA B — INDEPENDENT STUDENT WITHOUT DEPENDENTS OTHER THAN A SPOUSE

The EFC for an independent student without dependents other than a spouse is calculated using the FAFSA information for the student and spouse. The CPS calculates a contribution from available income, and a contribution from assets. The sum of these two is divided by the number in college in 2002-2003, as reported on the FAFSA. The result is the EFC for the 2002-2003 award period. Under the simplified formula, the contribution from assets isn't used.

At the end of this section are worksheets and tables that can be used to calculate the EFC for an independent student without dependents other than a spouse. For those items that are taken from the FAFSA, the worksheets indicate the corresponding FAFSA/SAR line numbers. On the worksheets for the simplified formula, the parts of the calculation that aren't used are greyed out.

Contribution from available income

To determine the student's contribution from available income, the student's available income is first calculated by subtracting total allowances from the student's total income. The allowances account for certain nondiscretionary expenses, such as taxes and basic living expenses. Once a minimum level of support has been provided for those expenses, the formula assumes that the remaining income is available for discretionary purposes, including paying for a postsecondary education. The available income can be a negative number. The available income is then assessed at a rate of 50% to obtain the student's contribution from available income.

▼ *Total income.* The total income is the sum of the student's and her spouse's (if the student is married) taxable and untaxed income, minus amounts reported in the income on the FAFSA but excluded from the formula (see the *Application and Verification Guide* for more on these exclusions). If the student and spouse are taxfilers, their AGI as reported on the FAFSA is the amount of taxable income used in the calculation. If the student and spouse are not taxfilers, the calculation uses reported income earned from work. Untaxed income is included in the formula because it may have a considerable effect on the family's financial strength and, in some cases, may be the family's main source of income. Note that "earned income credit" is included as part of total untaxed income and benefits only if the student or spouse are taxfilers. Total income can be a negative number.

▼ *Allowances against income.* Total allowances are calculated by adding the following:

- **U.S. income tax paid.** Use the amount reported on the FAFSA. Non-taxfilers don't receive this allowance. If this is a negative amount, it's set to zero.
- **State and other tax allowance.** Use Table B1. This allowance is a percentage of the student and spouse's total income. The

Formula for independent students without dependents other than a spouse

- Contribution from available income
- Contribution from assets

percentage varies according to the state. The state to be used is the student's state of legal residence reported on the FAFSA. If that item is blank or invalid, the state in the student's mailing address is used. If both items are blank or invalid, the rate for a blank or invalid state is used (2%). If the allowance is a negative amount, it's set to zero.

- **Social Security tax allowance.** The student's and spouse's Social Security taxes are calculated separately by applying the tax rates shown in Table B2 to the student's income earned from work in 2001 and the spouse's income earned from work in 2001 (as reported on the FAFSA). The total allowance for Social Security taxes is never less than zero.
- **Income protection allowance.** The income protection allowance for an unmarried student is \$5,300. For a married student, the income protection allowance is \$5,300 if the student's spouse is enrolled at least half time and \$8,470 if the student's spouse isn't enrolled at least half time.
- **Employment expense allowance.** Families with two working spouses have extra expenses that must be considered, such as housekeeping services, transportation, clothing and upkeep, and meals away from home. This allowance recognizes those extra expenses. If the student isn't married, the employment expense allowance is zero. If the student is married but only one person is working (either the student or the student's spouse), the allowance is zero. If both the student and his spouse are working, the allowance is 35% of the lesser of the student's income earned from work (question 42) or the spouse's income earned from work (question 43), but may not exceed \$3,000.

Contribution from assets

For students who qualify for the simplified formula, there is no contribution from assets. In the full formula, the assets of an independent student with no dependents other than a spouse are considered in order to fully measure the family's ability to contribute toward postsecondary educational costs.

First, the **net worth** of the student and spouse's assets is calculated by adding assets reported on the FAFSA. The net worth of a business or a farm is adjusted to protect a portion of the net worth of these assets. Use Table B3 to calculate the amount to be used.

Second, the student and spouse's **discretionary net worth** is calculated by subtracting the asset protection allowance (Table B4) from the net worth. The allowance increases with the age of the student as of December 31, 2002, which may be determined from the student's date of birth (as reported on the FAFSA). This is done to protect a portion of assets that may be needed for purposes other than education, such as emergencies or retirement. Discretionary net worth can be less than zero.

Finally, the discretionary net worth is multiplied by the conversion rate of 35% to obtain the student and spouse's contribution from assets, which represents the portion of the value of the assets that is considered to be available to help pay for the student's postsecondary education. If the contribution from assets is less than zero, it's set to zero.

Alternate EFCs for other than 9-month enrollment

The standard EFC is for a 9-month enrollment period. If the student will be enrolled for less than 9 months, the EFC is simply prorated by dividing it by 9 and then multiplying the result by the number of months the student will be enrolled. For an enrollment of more than 9 months, however, the EFC will now remain at the 9-month amount.

Elizabeth and Doug: Independent students w/o dependents

Total Income

Elizabeth is married, but has no other dependents. Her AGI is \$35,000; her income earned from work is \$10,000 and her husband's income earned from work is \$25,000. She reported no untaxed income on the FAFSA, so her total taxable and untaxed income is \$35,000. She reported \$6,000 in exclusions on the FAFSA in question 46; therefore, her total income is \$29,000.

Doug is a graduate student, and has no dependents. He didn't file a tax return, so he has no AGI. His income earned from work is \$4,000. He reports no untaxed income and no exclusions on the FAFSA, so his total income is \$4,000. Because Doug's parents have been paying his expenses, the FAA at Guerrero University makes an adjustment to Doug's application to account for their support. The FAA adds \$12,000 as untaxed income. After the adjustment, Doug's total taxable and untaxed income is \$16,000. He still has no exclusions on the FAFSA, so his total income is \$16,000.

Allowances and Contribution from Available Income

Elizabeth reported income tax paid of \$3,371. Her state of legal residence is Ohio, so her state and other tax allowance is $\$29,000 \times 5\% = \$1,450$. Her Social Security tax allowance is $\$10,000 \times 7.65\% = \765 , and her husband's Social Security tax allowance is $\$25,000 \times 7.65\% = \$1,913$. Her husband isn't enrolled at least half time, so her income protection allowance is \$8,470. Her employment expense allowance is \$3,000, because 35% of her income is \$3,500. Elizabeth's total allowances equal \$18,969. Her available income is $\$29,000 - \$18,969 = \$10,031$, and her contribution from income is $\$10,031 \times 50\% = \$5,016$.

Doug reported zero U.S. income tax paid on the FAFSA. His state of legal residence is Florida, so on his original application his state and other tax allowance is $\$4,000 \times 1\% = \40 . Doug's Social Security tax allowance is $\$4,000 \times 7.65\% = \306 . His income protection allowance is $\$5,300$, and his employment expense allowance is zero. Doug's total allowances equal $\$5,646$. His available income is $\$4,000 - \$5,646 = -\$1,646$, and his contribution from income is $-\$1,646 \times 50\% = -\823 . After the FAA at Guerrero makes her professional judgment adjustment, his state and other tax allowance is $\$16,000 \times 1\% = \160 . The other allowances are the same as before, and now Doug's total allowances equal $\$5,766$. His available income is $\$16,000 - \$5,766 = \$10,234$, and his contribution from income is $\$10,234 \times 50\% = \$5,117$.

Contribution from Assets Examples

Elizabeth reported $\$900$ for cash, savings, and checking on the FAFSA. Her husband also has a business with a negative net worth; following the instructions on the FAFSA, she reported this net worth as zero. The adjusted net worth of the business (the amount to be used in the EFC calculation) is also zero. Elizabeth is 24 years old, so her asset protection allowance is $\$0$. Her discretionary net worth is $\$900 - \$0 = \$900$. Multiplying this by the conversion rate of 35%, her contribution from assets is $\$315$. Because Elizabeth and her husband were required to complete a 1040, Elizabeth doesn't qualify for the simplified formula.

Doug reported $\$20$ for cash, savings, and checking on the FAFSA. He reported no other assets. He's 29 years old as of December 31, 2002, so his asset protection allowance is $\$4,500$. His discretionary net worth is $-\$4,480$; multiplying that amount by the conversion rate of 35% results in a negative number. Because the result is negative, Doug's contribution from assets is zero. Doug qualifies for the simplified formula, but because the contribution from assets is zero the EFC from the two formulas will be the same.

Final EFC Examples

Elizabeth's contribution from income and assets is $\$5,016 + \$315 = \$5,331$. Because there's only one person in college, her EFC is also 5331. If her husband were also enrolled in college, her income protection allowance would have been lower ($\$5,300$), so her available income would be higher. Her contribution from income would have been $\$6,601$, and her contribution from income and assets would have been $\$6,916$. Because there would be two household members in college, this amount would have been divided by 2 to determine Elizabeth's EFC, 3458.

On Doug's original application, his contribution from income and assets is $-\$823 + 0 = -\823 . Dividing this by the number in college, 1, the EFC would be -823 . Because this amount is less than zero, it's set to zero, and Doug's EFC is zero. After the FAA adjusts Doug's application to add in support from his parents, his contribution from income and assets is $\$5,117 + 0 = \$5,117$. Because there's only one person in college, this is also his EFC, 5117.

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Formula for independent student with dependents other than a spouse

- Available income
- Contribution from Assets
- Calculation of the student's EFC

FORMULA C — INDEPENDENT STUDENT WITH DEPENDENTS OTHER THAN A SPOUSE

The EFC for an independent student with dependents other than a spouse is calculated using the information for the student and spouse provided on the FAFSA. The formula is almost the same as the formula for the parents of a dependent student. There are three basic steps. First, the student's available income is determined. Then, the student's contribution from assets is calculated. Finally, the EFC is calculated using the available income, the contribution from assets, and the number in college.

At the end of this section are worksheets and tables that can be used to calculate the EFC for an independent student without dependents other than a spouse. For those items that are taken from the FAFSA, the worksheets indicate the corresponding FAFSA/SAR line numbers. On the worksheets for the simplified formula, the parts of the calculation that aren't used are greyed out.

Available income

Available income is calculated by subtracting certain allowances from the student's total income. These allowances account for certain nondiscretionary expenses, such as taxes and basic living expenses. Once a minimum level of support has been provided for those expenses, the formula assumes that the remaining income is available for discretionary purposes, including paying for a postsecondary education. The available income can be a negative number.

▼ *Student's total income.* The student's total income is the sum of the student's and his or her spouse's (if the student is married) taxable and untaxed income, minus amounts reported in the income on the FAFSA but excluded from the formula (see the *Application and Verification Guide* for more information on these exclusions). If the student and spouse are taxfilers, AGI as reported on the FAFSA is the amount of taxable income used in the calculation. If the student and spouse are not taxfilers, the calculation uses reported income earned from work. Note that "earned income credit" is included as part of total untaxed income and benefits only if the student and spouse are taxfilers. Total income can be a negative number.

▼ *Allowances against income.* Total allowances are calculated by adding the following:

- **U.S. income tax paid.** Use the amount reported on the FAFSA. Non-taxfilers don't receive this allowance. If this is a negative amount, it is set to zero.
- **State and other tax allowance.** Use Table C1. This allowance is a percentage of the total income and approximates the average amount paid in state and other taxes. The percentage varies according to the state and according to whether the total income is below \$15,000 or is \$15,000 or more. The state to be used is the student's state of legal residence reported on the FAFSA. If this item is blank or invalid, the state in the student's

mailing address is used. If both items are blank or invalid, the rate for a blank or invalid state is used (4% for total income below \$15,000; 3% for total income of \$15,000 or more). If the allowance is a negative amount, it's set to zero.

- **Social Security tax allowance.** The student's and spouse's Social Security taxes are calculated separately by applying the tax rates shown in Table C2 to the student's income earned from work and the spouse's income earned from work in 2001 (as reported on the FAFSA). The total allowance for Social Security taxes is never less than zero.
- **Income protection allowance.** Use Table C3. This allowance is a provision for the basic living expenses of a family. The allowance varies according to the number in the student's household and the number in college in 2002-2003, as reported on the FAFSA. In general, a school can assume that 30% of the income protection allowance amount is for food, 22% for housing, 9% for transportation expenses, 16% for clothing and personal care, 11% for medical care, and 12% for other family consumption. The income protection allowance used for a particular student is provided as one of the intermediate values in the FAA Information Section of the output document (labeled as "IPA").
- **Employment expense allowance.** Families with two working parents and one-parent families have extra expenses that must be considered, such as housekeeping services, transportation, clothing and upkeep, and meals away from home. This allowance recognizes those extra expenses. When both the student and spouse work, the allowance is 35% of the lesser of the student's income earned from work (question 42) or the spouse's income earned from work (question 43), but may not exceed \$3,000. If the student isn't married, the allowance is 35% of the student's income earned from work, or \$3,000, whichever is less. If a student is married and only the student *or* the spouse (but not both) reports an income earned from work, the allowance is zero. The employment expense allowance is never less than zero.

Contribution from assets

In the full formula, the assets of an independent student with dependents other than a spouse are considered in order to fully measure the family's ability to contribute toward postsecondary educational costs. The formula evaluates the family's asset situation and determines a "contribution from assets," an amount that is combined with available income to give an accurate picture of the family's financial strengths. In the simplified formula, the assets aren't counted at all.

First, the **net worth** of a student and spouse's assets is calculated by adding assets reported on the FAFSA. The net worth of a business or

farm is adjusted to protect a portion of these assets. Use Table C4 to calculate the amount to be used.

Second, the student and spouse's **discretionary net worth** is calculated by subtracting the asset protection allowance (Table C5) from the net worth. The allowance increases with the age of the student as of December 31, 2002, which may be determined from the student's date of birth (as reported on the FAFSA). This is done to protect a portion of assets that may be needed for purposes other than education, such as emergencies or retirement. Discretionary net worth can be less than zero.

Finally, the discretionary net worth is multiplied by the conversion rate of 12% to obtain the **contribution from assets**, which represents the portion of the value of the student and spouse's assets that may be considered to be available to help pay for the student's postsecondary education. If the contribution from assets is less than zero, it is set to zero.

Calculation of student's EFC

This is the final step in determining the EFC for the independent student with dependents other than a spouse. The available income and the contribution from assets are added together to obtain the adjusted available income. The adjusted available income can be a negative number. The total contribution from adjusted available income is calculated from using Table C6. This is the total amount the student's family is expected to contribute toward family postsecondary educational costs. The rates in Table C6 increase from 22% to 47% as the adjusted available income increases. The rate is based on the principle that as income increases beyond the amount needed to maintain a basic standard of living, the portion used for family maintenance decreases, while the portion available for discretionary purposes increases. The larger the income, the easier it is for a family to contribute toward postsecondary educational costs with less effect on the maintenance of the family.

The EFC is calculated by dividing the total student's contribution from adjusted available income by the number in college in 2002-2003, as reported on the FAFSA. The result is the EFC for the 2002-2003 award period.

Alternate EFCs for other than 9-month enrollment

The standard EFC is for a 9-month enrollment period. If the student will be enrolled for less than 9 months, the EFC is simply prorated by dividing it by 9 and then multiplying the result by the number of months the student will be enrolled. For an enrollment of more than 9 months, however, the EFC will now remain at the 9-month amount.

Allen and Eddy: Independent students w/ dependents

Total Income

Allen is married and has two children. He reports an AGI of \$55,000 on the FAFSA. His income earned from work is \$15,000 and his wife's income earned from work is \$40,000. He also listed \$1,000 in untaxed income on the FAFSA in question 45. His total taxable and untaxed income is \$56,000. He reported no exclusions on the FAFSA in question 46; therefore, his total income is \$56,000.

Eddy is an independent student. He and his wife are separated, but his nephew Chavo is his dependent. He reported an AGI of \$33,000 on the FAFSA and also reported income earned from work of \$12,500. He listed no untaxed income and no exclusions, so his total income is \$33,000. However, Eddy's application is selected for verification. When Guerrero University receives Eddy's tax form, it discovers that the AGI Eddy reported included his wife's income. Guerrero determines that Eddy should have reported an AGI of \$12,950. He still has no untaxed income or exclusions, so when he makes the correction his total income will be \$12,950.

Allowance and Available Income

Allen reported on the FAFSA that he paid \$5,569 in U.S. income tax. He lives in New York, so the percentage he uses for calculating state and local taxes is 10%. His allowance for state and local taxes is $\$56,000 \times 10\% = \$5,600$. His Social Security tax allowance is $\$15,000 \times 7.65\% = \$1,148$; his wife's Social Security tax allowance is $\$40,000 \times 7.65\% = \$3,060$. He reported a household size of four, with one household member in college, so his income protection allowance is \$20,320. His employment expense allowance is \$3,000, because 35% of his income (the lower of the two) is \$5,250. Therefore, the total allowances used in calculating Allen's EFC are \$38,697. His available income is \$17,303.

Eddy reported \$1,864 U.S. income tax paid on the FAFSA. He lives in Florida, so the percentage he uses for calculating state and local taxes is 3%. His allowance for state and local taxes is $\$33,000 \times 3\% = \990 . His Social Security tax allowance is $\$12,500 \times 7.65\% = \956 . His household size is two, with two in college, so his income protection allowance is \$10,950. Because he's not married, his employment expense allowance is \$3,000 (35% of his income earned from work is \$4,375). The total allowances used in calculating Eddy's EFC on his original application are \$17,760, and his available income is \$15,240. In verifying Eddy's application, Guerrero discovers that the amount Eddy reported for taxes paid included tax on his wife's income. Because they're separated, he should only have included his own part of the U.S. income tax paid, which was \$197. Also, when he makes the income correction, his allowance for state and local taxes will be $\$12,950 \times 4\% = \518 . The other allowances are still the same, so his total allowances when he makes the correction will be \$15,621, and his available income will be -\$2,671.

Contribution from Assets

Allen reported \$4,000 for cash, savings, and checking on the FAFSA. He also reported \$15,000 for the net worth of investments. His net worth is \$19,000. Allen is 32, so his asset protection allowance is \$16,000. His discretionary net worth is $\$19,000 - \$16,000 = \$3,000$. Multiplying this by the conversion rate of 12%, his contribution from assets is \$360.

Eddy reported \$100 for cash, savings, and checking on the FAFSA. He reported no other assets. His net worth is \$100. Eddy is 28, so his asset protection allowance is \$3,300. His discretionary net worth is $\$100 - \$3,300 = -\$3,200$. Multiplying this by the conversion rate of 12% produces a negative number, so Eddy's contribution from assets is zero. Eddy qualifies for the simplified formula, but the secondary EFC he gets will be the same as the primary EFC.

EFC Calculation

Allen's available income is \$17,303 and his contribution from assets is \$360, so his adjusted available income is \$17,663. The total contribution from adjusted available income is $\$3,346 + (\$2,863 \times 29\%) = \$4,176$. Because the number of household members in college is one, Allen's EFC is also 4176.

Eddy's available income from his original application \$15,240, and his contribution from assets is zero. His adjusted available income is \$15,240. The total contribution from adjusted available income is $\$3,346 + (\$440 \times 29\%) = \$3,474$. Because there are two household members in college, the total contribution from adjusted available income is divided by two to produce the EFC, so Eddy's EFC is 1737. After he fixes the problems discovered through verification, his available income is $-\$2,671$. His contribution from assets is still zero, so his adjusted available income is $-\$2,201$. According to Table C6, Eddy's total contribution from adjusted available income is $-\$2,671 \times 22\% = -\588 . Because this amount is negative, the total contribution from adjusted available income is set to zero. Dividing this by two results in an EFC of zero.

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