

Because students sometimes make significant errors when reporting application information, colleges have traditionally had procedures for verifying the information on financial aid application. The General Provisions have incorporated a verification process as part of the SFA program requirements. The Department only requires that a portion of the FAFSA filers at your school be verified, as selected by the Central Processing System. However, you have the authority to select additional aid applicants for verification under the SFA program rules.

The verification requirements explained in this chapter apply to all applicants for most SFA programs. Verification isn't required if the student is only receiving unsubsidized Stafford Loans or PLUS Loans, since these loans are not based on the EFC. A student can't avoid the verification requirements by choosing to borrow an unsubsidized loan instead of a subsidized loan. If a student selected for verification attempts to do this, the school is to continue the verification process anyway.

REQUIRED POLICIES

Your school must have written policies and procedures on the following verification issues:

- deadlines for students to submit documentation and consequences of the failure to meet those deadlines,
- method of notifying students of award changes resulting from verification,
- required correction procedures for students, and
- standard procedures for referring overpayment cases to the Department (see *Volume 1: Student Eligibility* for more information on handling overpayments).

Additionally, the school must give each applicant a written account of the following information:

- **Documentation requirements**—a clear explanation of the documentation needed to satisfy the verification requirements.

Required Verification Items:

1. Household size
2. Number in college
3. Adjusted Gross Income (AGI)
4. U.S. taxes paid
5. Certain types of untaxed income and benefits:
 - ➔ Social Security benefits
 - ➔ Child support
 - ➔ IRA/Keough deductions
 - ➔ Foreign income exclusion
 - ➔ Earned income credit
 - ➔ Interest on tax-free bonds

Verification Regulations Cite
34 CFR 668, Subpart E
Required policies—34 CFR 668.53

Quality Assurance Program

Under the Title IV Quality Assurance (QA) Program, participating schools develop and implement a quality improvement approach to SFA program administration and delivery. QA schools are exempt from certain administrative and procedural requirements, including certain verification requirements. The QA Program provides QA schools with an alternative management approach to develop verification that fits its particular population. Currently, QA schools are pilot testing a software tool to analyze the effectiveness of their institutional verification program. The “QA Tool” illuminates which application elements changed when verified and reveals the impact that those changes have on the EFC. This tool will be available to all schools in a future award year.

30% Verification Option Cite
34 CFR 668.54(a)(2)

- **Student responsibilities**—an explanation of the student’s responsibilities with respect to the verification requirements, including the deadlines for completing any actions required, the consequences of missing such deadlines, and required correction procedures.
- **Notification methods**—how your school will notify a student if his or her award changes as a result of verification, and the time frame for such notification.

APPLICATIONS TO BE VERIFIED

Applications are selected for verification either by the CPS or by the school. Under certain circumstances, a selected application may be excluded from required verification (see “30% Verification Option” and “Verification Exclusions” later in this chapter).

The output document shows whether the student’s application has been selected by the CPS. The “Verification Flag,” which is in the *Financial Aid Office Use Only* section along with the match flag results, will have a value of “y” if the application has been selected for verification. The CPS no longer prints an asterisk next to the EFC to identify applications selected for verification, but will include a SAR comment notifying the student if the application has been selected for verification.

A school may select additional applications for verification. For applications a school selects, the school decides which items it wants to verify. The school can choose not to verify items that must be verified on CPS-selected applications and can also choose to verify items other than those required by the Department. However, all other verification requirements (such as deadlines and allowable interim disbursement rules, etc.) apply equally to all students who are being verified, regardless of whether the CPS or the school selected the application for verification.

30% Verification Option

Generally, a school must verify all applications the CPS selects for verification. However, there is a limit on the number of applications you’re required to verify—you don’t have to verify more than 30% of the total number of SFA applicants at your school, unless you choose to do so. Instead, you can choose to stop verifying once you have verified 30% of the applicants at your school (applications a school selects and applications with conflicting information don’t count toward the 30% level). If the total number of selected applications is less than 30% of the school’s total number of applicants for federal student aid, the school must verify all selected applications.

To allow flexibility to aid administrators at different types of schools, the Department does not define “applicant” and “total number of applicants.” Each school must develop its own definitions and apply them consistently. An applicant may be defined as any student who applies for aid from the SFA programs or, more narrowly,

30% Verification Examples

Bennet College has 1000 applicants for federal student aid. During processing, the CPS selected 475 of those students' applications for verification. Bennet also selects 100 other applications, based on its own criteria. To meet the 30% level, Bennet only needs to verify 300 applications, not all 575 that are selected. However, the 100 Bennet selected don't count toward meeting the 30% requirement, so Bennet must verify at least 300 of the applications the CPS selected for verification.

Brust Conservatory has 1000 applicants for federal student aid. During processing, the CPS selected 289 of those students' applications for verification. Brust must verify all 289 applications because that number isn't more than 30% of the total applicants. The school isn't required to verify more applications to reach the 30% level; the 30% verification option is not a quota.

Benoit Institute has 1000 applicants for federal student aid. During processing, the CPS selected 300 of those students' applications for verification. Also, the school identified 40 additional applications as having conflicting information. Benoit must resolve the conflicting information for these 40 students. However, because the resolution of conflicting information is separate from verification, these 40 applications don't count toward the 30% level. Benoit must also verify all 300 applications that were selected for verification, because this number isn't more than 30% of the total applicants for federal student aid.

Example: selection after disbursement

Owen is attending Guerrero University. His application isn't selected for verification, and he receives aid in the fall. In December, Owen submits an address change on his SAR. That transaction is selected for verification. The aid administrator at Guerrero tells Owen he needs to submit verification documents if he wants his aid for the spring, but Owen doesn't turn in the documents. Owen doesn't have to repay the aid he got in the fall, but Guerrero cancels his aid package for the spring. If Owen does turn in the documents and complete verification before the year ends, Guerrero can give him the aid for the spring.

as a student who is eligible to receive an award from those programs. Further, you may define the total number of SFA applicants as the total number of applications received (regardless of whether the students are enrolled), as the total number of applications received from enrolled students, or as the total number of FAFSAs received from enrolled students who are eligible to receive an award. If you use one of these narrower definitions of applicants for purposes of the 30% limit, the students that you count towards the 30% limit must meet the narrower definition.

Your school must also have its own policy for determining the number of applications that constitutes 30% of their school's total applications. Schools must consistently adhere to and apply these policies, ensuring that selected applications are properly verified.

Selection after disbursement

If a student or school submits corrections, the student's application may be selected for verification on that subsequent transaction. In some cases, the student may already have been paid based on the previous, unselected, output document. Because the student was eligible for that disbursement when it was made, the disbursement doesn't need to be repaid if verification isn't completed. However, you can't make subsequent disbursements until the student's application is verified.

Verification exceptions

In addition to unsubsidized Stafford Loans and PLUS Loans, verification is not required—

- *for Stafford Loans (subsidized or unsubsidized) received for study at eligible foreign schools.*
- *for the Leveraging Educational Assistance Partnership (LEAP) Program (formerly the State Student Incentive Grant Program), unless the school is certain that a student's state grant contains federal funds.*
- *for the Robert C. Byrd Honors Scholarship Program.*

Also note that schools participating in the Quality Assurance Program can develop verification procedures different than those specified in the SFA regulations.

*Verification Exclusions Cite
34 CFR 668.54*

Immigrant Example

Hector arrives in the United States in February 2001, and begins attending Guerrero University in September 2001. His 2001-2002 application is selected for verification. Guerrero determines that it doesn't have to verify Hector's application because he arrived during the 2001 calendar year.

Spouse Unavailable Example

Ursula is attending Lem Community College, and her application is selected for verification. She provided her husband's information on the application, but now explains that her husband has recently moved out, and she can't locate him. Ursula also gives Lem some documents to show that she's tried to locate her husband. Lem determines that Ursula doesn't need to provide verification of her husband's tax and income information, but still needs to verify her own information.

Verification Exclusions

A selected application may be exempt from some or all of the verification requirements due to certain unusual circumstances. Except in the case of the student's death, however, none of these verification exclusions excuses the school from the requirement to resolve conflicting information.

Incarceration. A selected application does not have to be verified if the student is in jail or prison at the time of verification.

Recent immigrant. A selected application does not have to be verified if the student is an immigrant who arrived in the United States during calendar years 2001 or 2002.

Spouse unavailable. A school isn't required to verify spouse information (or to obtain the appropriate signature for verification purposes) if any of the following conditions apply:

- The spouse is deceased or mentally or physically incapacitated.
- The spouse is residing in a country other than the United States and can't be contacted by normal means.
- The spouse can't be located because his or her address is unknown, and the student can't obtain it.

You should document the basis for this exclusion in the student's file. This exclusion doesn't affect any other part of required verification; the selected application must still be verified according to all other requirements.

Parents unavailable. You don't have to verify a dependent student's application if any of the following conditions apply:

- The student's parents are deceased or mentally or physically incapacitated. (If both parents are dead, the student is an orphan and thus is an independent student. If the parents die after the student has applied, the student must update his or her dependency status, as discussed in Chapter 4.)
- The parents are residing in a country other than the United States and can't be contacted by normal means.
- The parents can't be located because their address is unknown, and the student can't obtain it.

Death of the student. If you make an interim disbursement during the verification process, and the student dies before verification is completed, you don't have to continue verification to justify the first disbursement. In such a case, a school can't make any additional disbursements to any of the student's beneficiaries, except for FWS

funds already earned. Also, you cannot originate or certify a Stafford Loan, or deliver proceeds from either one for the student's beneficiaries.

Applicant verified by another school. You don't have to verify the selected application of a student who completed verification for the current award year at another school before transferring. To document a student's eligibility for this exclusion, you must get a letter from the school that completed the verification. The letter must include:

- a statement that the student's application data have been verified,
- the transaction number of the verified application, **and**
- if relevant, the reasons why the school was not required to recalculate the student's EFC (for example, the application errors may have been within the allowable tolerance—see "Verification tolerance," page 60).

Pacific Island resident. You don't have to verify the selected application of a student who is either

- a legal resident of Guam, American Samoa, or the Commonwealth of the Northern Mariana Islands, or
- a citizen of the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau.

To qualify for this exclusion, a dependent student's parents must also be citizens of one of these former territories. As documentation, you should note the permanent mailing address in the student's file.

Not an aid recipient. You don't have to verify a student who won't receive SFA funds (for reasons other than the student's failure to complete verification). This category includes students ineligible for aid from the SFA programs and those who withdraw without receiving aid.

Required Verification Items Cite
34 CFR 668.56(a)

Timing of Signature

Any required signatures, such as signatures on worksheets or on copies of tax returns, must be collected at the time of verification, during the applicable award year. Signatures can't be collected after the verification deadline for that award year.

REQUIRED VERIFICATION ITEMS

If the CPS selects an application for verification, you must verify five major data elements:

- household size,
- number enrolled in college,
- adjusted gross income (AGI),
- U.S. income tax paid, and
- certain untaxed income and benefits.

In addition to verifying these required application data items for CPS-selected students, you can choose to verify any other application items, requiring any reasonable documentation, in accordance with consistently applied institutional policies and procedures. You may decide which students must provide documentation for any additional data elements and what constitutes acceptable documentation.

General documentation requirements & the Verification Worksheets

The following sections describe the documentation that a student is required to provide for each data item. To help you collect most of the necessary documentation, this chapter includes the 2001-2002 Verification Worksheets developed by the Department. When a student completes a verification worksheet and attaches the appropriate tax forms or alternative documents, you will usually have enough information to complete the verification process. You may reproduce as many worksheets as you need (master copies are also available through EDEXpress and the IFAP web site at ifap.ed.gov).

However, you're not required to use the Verification Worksheets. Your school may use its own worksheet, or no worksheet at all. You may require other documentation in addition to, or instead of, a completed verification worksheet. The chart on this page shows other forms of acceptable documentation for each required verification item. Later in this chapter, these other documents are discussed in detail.

If you require students to complete verification worksheets, you must provide the appropriate (dependent or independent) worksheets to the selected students. You may want to remind your students that they must submit the completed worksheet (and copies of the relevant income tax returns or alternative documents) to the financial aid office, not to the Department of Education.

When you receive the student's submission, you should make sure that all required worksheet sections are completed and appropriately signed and that the relevant tax returns or alternative documents are attached. As explained later in this section, copies

Acceptable Documentation

	<i>Verification Worksheet & Tax Return(s)</i>	<i>Other Documentation in lieu of Worksheet or Tax Return (see the text for details)</i>
<i>Household Size</i>		Signed Statement
<i>Number Enrolled</i>		Signed Statement and/or Institutional Certification
<i>AGI & Taxes Paid</i>		IRS tax transcript, other signed IRS forms with tax data, Form W-2, Form 4868, or a signed statement.
<i>Untaxed Income & Benefits</i>		Official Agency Documentation and/or Signed Statement

(such as photocopies, faxes, digital images, etc.) of worksheets, tax returns, or other documentation are acceptable. Unless specifically noted in this chapter, an original signature—that is, a handwritten pen-and-ink signature that has not been duplicated—is *not* required. After checking the documentation against the student’s application data, you may either disburse the student’s award or make the necessary corrections and updates. (See “After Documentation is Complete”)

Household Size Documentation and Exceptions

Student Assistance General Provisions

34 CFR 668.57(b)

34 CFR 668.56(a)(3), (b), (c)

Household size

The law specifies who is included in household size; see “Step 4” and “Step 5” in Chapter 2. If the student completed a verification worksheet, no further documentation for this item is required. Instead of the worksheet, you may accept a statement signed by the student (and at least one of the student’s parents, for dependent students), listing the names of the household members, their relationship to the student, and their age.

You don’t have to verify household size if any of the following conditions apply:

- it’s the same as reported and verified in the previous award year.
- you receive the student’s ISIR or SAR within 90 days after the date the application was signed.

Tax Documents: Special Situations & Alternatives

There are certain situations, such as when the student files taxes electronically, or earned foreign income, when the school may need to do something other than examine a 1040, 1040A, or 1040EZ form.

Electronic filing (e-file)

The IRS *e-file* program comprises several electronic filing methods. For example, the taxfiler can go to an *e-file* provider who will send the return to the IRS, or use taxfiling software on a home computer. The filer should always receive a paper copy of the return in some format. Software used on a home computer may produce a 1040PC, or may allow the taxfiler to print out a standard 1040, 1040A, or 1040EZ that contains the information that was filed electronically. Or the *e-file* provider might print out a copy of the return using its own format. Any of these paper copies of the return are acceptable documentation for verification purposes, as long as they are signed by at least one of the taxfilers. (When an electronic tax return is filed, the filer also submits IRS Form 8453. Form 8453 doesn't have enough information for verification purposes.)

Returns in the e-file provider's format might not contain every line item, showing instead only the data the taxfiler provided. For example, if Item 8a, "Taxable interest income," does not appear on such a return, that means the student reported no taxable interest income.

TeleFile

TeleFile (formerly called 1040TEL) allows 1040EZ filers to file a tax return over the phone. Filers complete a TeleFile Tax Record, call an IRS number, and enter the information over the telephone. The TeleFile Tax Record is acceptable documentation for verification purposes, provided it contains the filer's 10-digit IRS confirmation number in Line N and is signed by the filer. (There is no signature line—have the filer sign at the bottom.)

Nonfilers

An AGI figure won't be available for someone who isn't required to file a tax return. A nonfiler would instead report on the FAFSA income earned from work, which includes any income reported on the individual's forms W-2 *plus* any other earnings from work not reported on those forms. (Even if no taxes were paid on this income earned from work, it **should not** be reported as untaxed income on the FAFSA.)

A properly completed verification worksheet sufficiently documents income earned from work. No further documentation is required. If the student doesn't complete a verification worksheet, the school must require from each nonfiler a signed statement certifying his or her nonfiler status and listing the sources and amounts of income. The school can also accept copies of the W-2 forms.

Financial aid professionals are not expected to have special knowledge or expertise regarding the U.S. tax code. If someone whose data was required on the FAFSA submits a signed statement claiming non-taxfiler status, and the school has reason to believe that person would have been required to file a U.S. tax return, this constitutes conflicting information and must be resolved. (For more information on conflicting information, see Chapter 4.) For example, in such a case, you might require a letter from the IRS, a copy of the applicable tax provision, or other documentation supporting the claim to nonfiler status. Remember, conflicting information **must** be resolved before you can disburse federal student aid.

Filing extensions

If any of the persons required to report information on the FAFSA will file but hadn't filed a tax return at the time of application, they would have used an estimated AGI on the FAFSA. At the time of verification, the necessary tax return(s) should have been filed and can be used for verification. If a return hasn't been filed by then and a filing extension was granted by the IRS, the school may accept as alternative documentation: copies

of the W-2 forms, and, as proof that the IRS has granted a filing extension, either a copy of IRS Form 4868—*Application for Automatic Extension of Time to File U.S. Individual Income Tax Return* (automatically grants the taxpayer a four-month extension beyond the April 15 deadline) or a copy of the IRS approval of an extension beyond the automatic four-month extension.

In addition to supplying the above documentation, the student must submit a copy of the tax returns when filed. When you receive the completed tax returns, you must use them to re-verify the required data. A student who fails to submit a copy of the filed tax return or alternative documents before the documentation deadline is ineligible for SFA funds and is required to repay any aid disbursed. Regardless of whether the student repays the aid, your school is liable for the interim disbursement (see “Interim Disbursements”).

Fiscal year returns

For a fiscal year tax return, as opposed to a return for the calendar year, the student should report the AGI and U.S. Income Tax Paid from the fiscal year tax return that includes the greater number of months in the base year (see Chapter 2 for an example). Accordingly, you should use the tax return from that fiscal year for verification purposes.

Nonresident filers

1040NR is a special return filed by certain nonresidents, mostly individuals holding temporary visas (such as an F-1 or H-1). Such persons are neither permanent residents nor U.S. citizens. The 1040NR is acceptable documentation for verification purposes.

Foreign income

As noted in “Step 2” in Chapter 2, information from non-IRS tax returns would be reported on the FAFSA, with the value of the foreign income and taxes reported in U.S. dollars, using the exchange rate at the time of application. For verification purposes, these returns would be considered equivalent to an IRS Form 1040. If the student (or the student's parents) earned foreign income but did not pay any taxes on that income, it should be reported as untaxed income.

If a tax return isn't available

If copies of the necessary tax returns are not available, the student must instead submit a copy of any IRS form that lists tax account information. A common form is the tax transcript. A student can call the IRS help line at 1-800-829-1040, wait to talk to a representative, and order a tax transcript. It might not have as much financial information as the tax return, so the student may have to provide additional documents to complete verification.

Any form that lists tax account information and provides the information needed for verification is acceptable. The form **must** be signed by the student (and a parent, if the student is dependent), unless the IRS sent the form directly to the school.

If the IRS can't provide a copy of the return or any form with tax account information, you can accept a copy of the W-2 for everyone whose income is listed on the FAFSA. If a filer is self-employed or if a W-2 is otherwise unavailable, you can accept a signed statement from the filer certifying that his or her income and other appropriate information is correct.

*Citations: 34 CFR 668.57(a)(4)(i)
34 CFR 668.57(a)(2)
34 CFR 668.57(a)(4)(ii), (a)(5)*

**Number in College—
Documentation & Exceptions**
Student Assistance General Provisions
34 CFR 668.57(c)
34 CFR 668.56(a)(4), (b), (d)

- for a dependent student, the household size reported for married parents is 3 (or 2, if the parent is single, divorced, separated, or widowed).
- the household size reported for a married independent student is 2 (or 1, if the student is single, divorced, separated, or widowed).

Number enrolled in college

If the student completes a verification worksheet, no further documentation for this item is required. Instead of the worksheet, you may accept a statement signed by the student (and at least one of the student's parents, for dependent students). The statement can be combined with the statement verifying household size, and should include the names and ages of those enrolled and the names of the schools they plan to attend. If you still have reason to doubt the enrollment information reported, you should require the student to obtain documentation from the other students and schools listed. (If the other student(s) in the family haven't enrolled yet, documentation from the other school(s) may not be available.)

You don't have to verify the number enrolled in college if any of the following conditions apply:

- the reported number enrolled is one (the student only).
- you receive the student's ISIR or SAR within 90 days after the date the application was signed.
- the family members the student lists are enrolled at least half time at your school, and you have confirmed their enrollment through your school's own records.

Adjusted Gross Income (AGI) and Income Tax Paid

You can usually verify AGI and U.S. Income Tax Paid by getting a copy of the signed U.S. income tax return. The tax documents needed for verification may vary depending on the filing method used by the student, spouse, or parents—electronically (through e-file), over the telephone (through TeleFile), or using traditional paper tax forms. All documentation must contain the required signatures (or preparer's stamp or other official validations) and must contain all data necessary for verification. If all necessary data are not present, the student must provide additional documentation, as described in this section.

To verify AGI and taxes paid, you must first identify everyone whose financial data was reported on the FAFSA, and which tax returns, if any, they filed. You must check the tax returns for anyone whose financial data was reported on the FAFSA: the student, the student's spouse, or the student's parents. Each person reported on the FAFSA which tax return they filed or that they were not required to file a tax return. The type of form reported on the FAFSA should match what the student and parents actually filed.

The AGI figures reported on the FAFSA should always match the AGI figures that appear on the student’s tax return, unless the FAFSA amount has been adjusted from a joint return due to divorce, separation, or professional judgment (see “Using a joint return to figure individual AGI and taxes paid”). If the figures don’t match, a correction may be needed, as discussed later in this chapter. For more information on how specific types and special categories of income should be reported on the FAFSA, see Chapter 2.

The line item chart below shows the tax form line items for the most commonly reported items. This chart is a reference only; it is not an inclusive list of all the items the school must check on a tax return.

For verification purposes, you can accept a copy (such as a photocopy, fax, or digital image) of the original signed return filed with the IRS. If a fax, photocopy, or other acceptable copy was made of an unsigned return, the filer (or at least one of the filers of a joint return) must sign the copy. You can also accept a tax form that has been completed to duplicate the filed return; this duplicate must contain at least one filer’s signature.

Instead of a return the filer has signed, you may also accept a paper return the tax preparer has signed or officially stamped or a copy of an IRS form with tax account information. (Documentation from electronic returns must be signed by the filer, as explained in the following section.) In some cases, you can waive the requirement for spouse information and signatures (see “Exclusions from Verification”).

**AGI and Income
Tax Documentation Cites**
34 CFR 668.57(a)

Tax Return FAFSA Questions
For students, the tax return questions are 37 and 38 on the FAFSA. For parents, the tax return questions are 71 and 72.

Line Items

	1040	1040A	1040EZ
AGI	33	19	4
Income Tax Paid	51	33	10
Deductible IRA/SEP	23 and 29	16	
Earned Income Credit	60a	38a	8a
Tax-Exempt Interest Income	8b	8b	
Untaxed Portions of IRAs and Pensions (excludes rollovers)	15a minus 15b and 16a minus 16b	11a minus 11b and 12a minus 12b	

Using a joint return to figure individual AGI and taxes paid

If the filer of a joint return has become widowed, divorced, or separated since filing the return, it may be necessary for verification purposes to determine the individual's income and taxes paid using the joint return and the relevant IRS Forms W-2. (If a filer is self-employed or if a W-2 is not available, the school may accept a signed statement from the filer that certifies the base year AGI and U.S. taxes paid.)

Starting with the income figures from the individual's forms W-2, add the individual's income that you have extracted from the joint return. Any interest or business income earned on joint accounts or investments should be assessed at 50%. (The same procedure should be used to divide business or farm losses.) Also, if the AGI listed on the joint return was adjusted ("Adjustment to Income"), you should reduce the individual's AGI by the portion of the adjustment that applies solely to him or her. For example, if an adjustment was made for moving expenses (which applies to the couple jointly), only 50% of the adjustment amount can be applied against the individual's income. An AGI figure can be calculated for the individual filer, using a joint return; a signed statement from the filer, certifying that the data from the joint return were accurately assessed, is sufficient documentation for this method.

Use one of the following methods to figure the individual's taxes paid:

- **Tax Table (preferred method).** Using the IRS Tax Table or Tax Rate Schedule for the appropriate year, calculate the amount of tax that would have been paid if a separate return had been filed. Use the deduction and number of exemptions the individual could have claimed if he or she had filed a separate return. (If itemized deductions were taken, count only the portion of those deductions that could have been claimed on a separate tax return.)
- **Proportional Distribution.** Determine what percentage of the joint AGI was attributable to the individual and then assess the joint tax paid by that same percentage

Example 1: Calculating Individual AGI from Joint Return Example

Eddy's application is selected for verification. He and his wife filed a joint return for 2000, and have since separated. The AGI on Eddy's FAFSA matches the AGI on the 2000 tax return, which means it's wrong, because it includes his wife's income.

Eddy's W-2s show that his income for 2000 was \$12,500, while the AGI on the tax return is \$33,000. In addition to the income earned from work, the tax return also shows \$100 in interest income. Also, Eddy received a scholarship, and reported \$400 of the scholarship as taxable income. The aid administrator adds \$50 of the interest income to Eddy's income (because it was interest on a joint savings account), and includes all of the taxable scholarship in his income. Therefore, the aid administrator determines that Eddy's income is \$12,950, and submits a correction through EDE.

Example 2: Calculating Individual Taxes Paid from a Joint Return

The aid administrator determines that Eddy's part of the \$33,000 AGI he and his wife reported is \$12,950. Eddy and his wife claimed five exemptions on their tax return (themselves, two children, and Eddy's nephew). Eddy's wife has custody of the children, and will claim them as her dependents when she files her tax return for 2001. Eddy's nephew still lives with him. Therefore, Eddy would have had two exemptions (himself and his nephew), totaling \$5,600. In the new situation, Eddy's filing status is "head of household" instead of "married." Therefore, his standard deduction is \$6,450 (instead of the \$7,350 for married filers). Eddy's income of \$12,950 minus the \$5,600 for exemptions and the \$6,450 standard deduction results in \$900 in taxable income.

The aid administrator uses the tax table to determine how much tax Eddy would have paid on this amount, taking into account any applicable credits reported on the original return. With a taxable income of \$900, the amount of tax paid from the tax schedule would be \$137.

To use the proportional distribution method instead, the aid administrator figures out what percentage of the joint AGI Eddy's income represents. The percentage is 39% (12,950 divided by 33,000 is .3924). The aid administrator then multiplies the income tax paid as reported on the tax return (\$1,864 for this example) by this percentage. Therefore, Eddy's income tax paid would be \$727 (.39 x \$1,864).

Untaxed Income and Benefits

The term “untaxed income” means any income excluded from federal income taxation under the IRS code. For an application selected for verification, you must verify up to six specific types of untaxed income and benefits:

- Social Security benefits,
- child support,
- IRA/Keogh deductions,
- foreign income exclusion,
- earned income credit, and
- interest on tax-free bonds.

Except for Social Security benefits and child support, the required items can be verified using the tax return or alternative tax documents. Nonfilers should submit a signed statement confirming that they did not file a tax return and listing the amount and specific sources, of untaxed income and benefits, by name.

In addition to these types of untaxed income and benefits, you must verify all other untaxed income reported on the U.S. individual income tax return (excluding schedules). Chapter 2 discusses in detail the untaxed income and benefits that must be reported on the FAFSA.

You’re not required to verify any untaxed income and benefits received from a federal, state, or local government agency on the basis of a financial need assessment. Further, “in-kind” income (see Chapter 2) is not reported on the FAFSA and does not have to be verified.

✓ *Verifying untaxed Social Security benefits*

You’re not required to verify Social Security benefits **unless** you has reason to believe that benefits were not reported or were reported incorrectly. If you believe verification is necessary, you can accept the following documentation:

- documentation from the Social Security Administration showing the total amount of benefits received by the student, the student’s spouse, or a dependent student’s parents, or
- a statement signed by the student (and spouse or parent) certifying that the amount of Social Security benefits reported on the application is correct.

Tip for Verifying Social Security Benefits

Be sure the student reports the total amount (not the monthly amount) of benefits received in the base year—including Supplemental Security Income and benefits received on behalf of dependent children. Also, be sure the benefits were not included in the AGI. Lastly, if the Social Security statement shows an amount deducted for Medicare, make sure that amount is included in the total benefits reported.

*Social Security Benefits Cite:
34 CFR 668.57(d)(2)*

Child Support Documentation
Cites

34 CFR 668.57(d)(3)

✓ **Verifying child support received**

You must verify child support if the student, student's spouse, or student's parents report receiving it, or if you have reason to believe it was received. Child support doesn't have to be verified if the amount reported is the same amount that was verified in the previous year.

Untaxed Income and Benefits
Documentation Cites

34 CFR 668.57(d)

A completed verification worksheet is sufficient to verify child support received. If you don't use the verification worksheet, you must require a statement confirming the amount of child support received for all children in the household. The student (and one parent, if the student is dependent) must sign this statement. If child support is paid through a government agency, a statement from that agency would also be acceptable. If you have reason to doubt the statement provided, you should request at least one of the following items:

- a copy of the divorce decree or separation agreement showing the amount of child support to be provided,
- a signed statement from the parent who provided the support showing the amount of child support provided, or
- copies of the canceled checks or money order receipts.

✓ **Verifying deductions for IRA and Keogh plans**

Deductible payments to IRA and Keogh plans can be verified using the tax return. The deducted amounts are reported on lines 23 and 29 of IRS Form 1040, or line 16 of IRS Form 1040A.

✓ **Verifying interest on tax-free bonds**

Interest on tax-free bonds can be verified using the tax return. Refer to line 8b of IRS Form 1040 or to line 8b of IRS Form 1040A.

✓ **Verifying foreign income excluded from U.S. taxation**

Excluded foreign income can be verified by using IRS Forms 2555 (line 43) or 2555EZ (line 18). Note that the final total for Form 2555 shouldn't be reported as untaxed income, because it contains other exclusions.

✓ **Verifying earned income credit (EIC)**

Earned income credit is available to certain eligible workers and must be reported on the FAFSA and verified. The amount can be verified from line 60a of the 1040, line 38a of the 1040A, or line 8a of the 1040EZ.

COMPLETING THE PROCESS

If a student's application is selected for verification, he or she must complete the verification process or forfeit federal student aid eligibility. You have the authority to withhold disbursement of any SFA funds until the student completes the required verification. Adopting this policy substantially reduces the incidence of overpayments. However, you can also make an interim disbursement before verification is complete.

Interim Disbursements

As long as you have no reason to believe the application information is inaccurate, you can make an interim disbursement before verification is complete. The interim disbursement limitations as they apply to each program are listed below. Your school is liable for an interim disbursement if verification shows that the student received an overpayment, or if the student fails to complete verification.

- ***Pell Grant, Perkins, and FSEOG.*** You can make one disbursement from each of these programs, for the student's first payment period. If you make an interim Pell disbursement, you report the payment with a "W" (Without Documentation) verification status code. (See "Verification status codes" later in this chapter.)
- ***Federal Work-Study.*** Before completing verification, you can employ a student under FWS for up to 60 *consecutive* days after the student enrolls (or in summer employment for up to 60 days), provided you have no conflicting documentation concerning the student. After 60 days, if verification has not been completed, you can't continue to employ the student under FWS. If you later discover that the student has been overawarded, you should attempt to adjust the student's other aid. Otherwise, you must reimburse the FWS Program from school funds. Except in the case of proven student fraud, a student can't be required to repay FWS wages earned. (See *Volume 6: Federal Work-Study Program.*)
- ***Stafford Loans.*** If you have no conflicting documentation, you can certify a Stafford Loan application (or originate a Direct Loan) for a student who hasn't completed the verification process. However, you can't disburse the Stafford Loan funds to the borrower. See *Volume 8: Direct Loan and FFEL Programs* for a detailed discussion of how to handle adjustments when the student's eligibility changes after the loan process is initiated, and for limits on how long your school can hold loan proceeds before either disbursing them to the student or returning them to the lender.

Interim Disbursements Cite *34 CFR 668.58*

Pell, Perkins, FSEOG Interim Disbursement Example

Steven's application is selected for verification. He's attending Brust Conservatory, which chooses to make interim disbursements. Steven's eligible for a Pell, and Brust also awards him a Perkins Loan. He isn't eligible for an FSEOG. Steven has already made some corrections because Brust discovered errors in his application, but he hasn't submitted all the verification documentation yet. Brust doesn't want to pay Steven until it receives his corrected output document. As long as Brust makes the payment before the first payment period ends, it can make an interim disbursement before Steven turns in all his verification paperwork. Otherwise, Brust will have to wait until Steven completes verification to make any disbursements.

Disbursement of Unsubsidized Loans without Verification

As mentioned previously, verification isn't required for unsubsidized loans. Therefore, schools can originate, certify, and disburse unsubsidized loans regardless of a student's verification status.

Items that Must be Updated

If the student is selected for verification, then household size and number in college must be updated to be correct at the time of verification. Dependency status must be updated if it changes during the award year (see Chapter 4).

Tolerance Example

Emma originally reported an AGI of \$2,500, \$300 in untaxed income, and \$300 U.S. income tax paid. Verification shows that her AGI was actually \$3,000, and she paid \$400 in U.S. income tax.

Original: \$2,500 (AGI) + \$300 (untaxed income) - \$300 (taxes paid) = \$2,500 (uncorrected total)

Corrected: \$3,000 (AGI) + \$300 (untaxed income) - \$400 (taxes paid) = \$2,900 (corrected total)

Net Difference: \$400 (\$2,900-\$2,500)

Because the net difference is within tolerance, the school can award Emma's aid based on what she originally reported, without requiring corrections or recalculation of the EFC.

Failure to Submit Documentation Cites

*Pell Grants—34 CFR 668.60(c)
C-B/Stafford—34 CFR 668.60(b)*

After Documentation is Complete

When you've obtained all necessary verification documents from the student, you should compare that documentation to the information originally reported on the application. If the verification process shows that all the student's information is correct, and there are no outstanding issues or conflicting information, you may award aid and disburse aid for which the student is eligible.

If verification revealed errors or inconsistencies, the student may have to make corrections, or update information (in certain limited cases). See Chapter 4 for instructions on how to make corrections or to update information.

Verification tolerance

Verification can sometimes uncover minor errors that won't significantly affect the student's eligibility, so the regulations provide a tolerance option for verification changes.

There is no tolerance for errors in nondollar items. If the original application has errors in any nondollar items, such as household size, you can't use the tolerance option, and the student must make a correction. However, if there are only dollar amount errors, and all dollar errors are within the tolerance limit, you may award the student's aid based on the application data as is, without submitting corrections or recalculating the EFC. You don't have to use the tolerance option—you can always have the student submit corrections for reprocessing.

The tolerance limit is \$400—if the net difference between the original and correct data for certain dollar items is more than \$400, the information must be corrected. To calculate the net difference for purposes of the tolerance, first add the original (uncorrected) AGI and untaxed income amounts. From that amount, subtract the original U.S. income tax paid to get the uncorrected total. Then, add the correct AGI and untaxed income amounts and subtract from that total the correct U.S. income tax paid to get the corrected total. If the difference between the uncorrected total and the corrected total is \$400 or less (and there are only dollar amount errors), the errors are within tolerance and recalculation is not required.

Failure to Submit Documentation

A Pell applicant selected for verification must complete the process within deadlines published in the *Federal Register*. At the time this publication went to print, the deadline notice for 2001-2002 had not been published; however, we expect the deadline to be September 3, 2002 or no later than 90 days after the last day of the student's enrollment, whichever is earlier.

For Pell Grants, verification is complete when the student has corrected any errors or has shown that the information is correct. In addition to all verifying documentation, your school must also have on

file the final and valid ISIR or SAR, showing the official EFC. If the student does not complete verification by the deadline, he or she forfeits the Pell for the award year, so your school must repay any funds already disbursed.

Campus-based and Stafford Loan applicants must complete verification within the deadlines that established by your aid office. For these programs, the student has completed verification when he or she has submitted all requested documentation to the school. You must also have on file an output document that shows the student's application data were processed through the CPS at least once. The output document need not be final or signed by the student.

Under the Campus-based and Stafford Loan programs, if a student fails to provide the required documentation by the deadline, you must not:

- disburse additional FSEOG or Federal Perkins Loan funds to the student (funds already disbursed must be repaid by your school)
- continue the student's employment in an FWS job,
- certify a Stafford Loan application or originate a Direct Loan for the student, or
- disburse Stafford Loan funds to the student.

Verification Status Codes

When you disburse a Pell award, you must report the student's verification status, even if the student's application was not selected for verification. (See *Volume 3: Pell Grants*.)

N—not selected by the CPS

The CPS didn't select the student, and the school didn't verify any items. (If verification wasn't required, but the school verified some of the student's information anyway, the school wouldn't use the "N" code. Instead, it would use one of the other codes, as appropriate.)

A—accurate

Verification was completed, and the record being used for the award is accurate.

W—without documentation

Verification is required, but the student hasn't completed the process. A first disbursement has been made. Verification *must* be completed before the next disbursement can be made, and the school must enter a different verification code on that student's disbursement record to show the verification status under which the student was finally paid.

If a student's disbursement record still shows a "W" code after the Pell verification deadline has passed, that student's award eligibility will be dropped, or "zeroed out," from the Pell payment system. The school will not receive Pell funds for the student and must repay any funds already disbursed in accordance with the overpayment procedures *Volume 1: Student Eligibility*.

T—tolerance

Some data items were incorrect. However, the discrepancy was within the tolerance, and the student was paid based on the uncorrected data. This code is also used for students who are exempt from verification under one of the allowable exclusions. (See "Verification Exclusions.")

C—calculated

The application information was verified and found to be incorrect. The school recalculated the EFC and determined that the recalculated award would be the same or higher than the original award. The school paid based on the original EFC, without requiring the student's application information to be corrected and reprocessed. If the school's calculation is wrong, it will be liable for any overpayment. (To pay the higher award according to the recalculated EFC, the application information must be corrected and reprocessed.)

R—reprocessed

The application information was verified and found to be incorrect; the information was corrected and reprocessed for that reason. The school paid the student based on the reprocessed application information. If a student makes additional errors in correcting and the reprocessed output document is still not valid for payment, the student must make corrections again, and the information must again be reprocessed. The "R" code still applies. (If the additional errors fall within tolerance, the student may be paid without the application information being reprocessed again. In this case, use the "T" code.) The school should also use an "R" code if the student voluntarily corrected the application and had it reprocessed without being required to. An "R" code applies only to application information that has been corrected and reprocessed. The "R" code can't be used on a student's original application (also called an 01 transaction).

S—selected, not verified

The application was selected for verification but was not verified either because the school has already verified at least 30% of its total applications for federal student assistance or is participating in the QA Program.

*Verification Worksheet
for Dependent Students appears here in
the print edition;
see separate PDF FILE for
the electronic version*

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