
Using Federal Tax Returns in Need Analysis

The following information, compiled by NASFAA since 1983, is a reference tool on how to use various IRS federal income tax returns, schedules, and forms in need analysis.

Line and item references on the “Forms Comparison” chart and the “Guide to Implied Assets and Income” chart refer to **2002** IRS forms and the **2003-2004** Free Application for Federal Student Aid (FAFSA).

This reference document includes a section on the use of the W-2 form for verifying certain sources of income that may not be accurately reported on the FAFSA. These income items include earnings and tax-deferred income contributed to pension and savings plans. Other untaxed income may also be reported.

The use of electronic, personal computer (PC), and *TeleFile* (via telephone) tax filing options increases each year. Aid administrators must understand which filings are acceptable for federal verification purposes. Consult the Application and Verification Guide found in the Department of Education’s 2002-2003 *Federal Student Aid Handbook* for details on acceptable documentation.

One of the best sources of information on individual tax returns, *Individuals’ Filled-In Tax Return Forms*, is published by CCH Incorporated (formerly known as the Commerce Clearing House). The price for the 2003 edition is \$35.00 per copy, plus a variable mailing/billing charge and applicable sales tax. To order, call 1-800-248-3248 or write: CCH Inc., 4025 W. Peterson Ave., Chicago, IL 60646-6085. It can also be ordered from their web site at:
http://tax.cchgroup.com/Store/Products/CCE-CCH-1988.htm?cs_catalog=TADS

Another good source of individual tax information is the Internal Revenue Service (IRS) Publication 17, *Your Federal Income Tax for Individuals*. This publication is available free of charge from the IRS. You can also download it on line by going to:
<http://www.irs.gov/formspubs/lists/0,,id=97819,00.html>. This IRS publication is similar in content but less comprehensive than the CCH publication. Either of these publications is an excellent reference source for the more esoteric tax returns that a financial aid office may receive.

Brief Description of Common 2002 Federal Tax Forms

Form	Title	Description
1040	U.S. Individual Income Tax Return	Self-explanatory
1040A	U.S. Individual Income Tax Return	Short version of 1040
1040EZ	Income Tax Return for Single and Joint Filers With No Dependents	Specialized version of 1040
1040NR	U.S. Nonresident Alien Income Tax Return	Self-explanatory
1040NR-EZ	U.S. Income Tax Return for Certain Nonresident Aliens with No Dependents	Self-explanatory
1040X	Amended U.S. Individual Income Tax Return	Submitted when changes are made after original 1040 has been filed
1041	U.S. Income Tax Return for Estates and Trusts	Self-explanatory
1065	U.S. Partnership Return of Income	Self-explanatory
1098E	Student Loan Interest Statement	Shows student loan interest paid by the student to the lender
1099DIV	Dividends and Distributions	Distributions, such as dividends, capital gain distributions, or nontaxable distributions, that were paid on stock, and liquidation distributions
1099G	Certain Government Payments	Unemployment compensation, state and local income tax refunds, agricultural payments, and taxable grants
1099INT	Interest Income	Self-explanatory
1099-MISC	Miscellaneous Income	Rent or royalty payments; prizes and awards that are not for services, such as winnings on TV or radio shows
1099-MSA	Distributions from an Archer MSA or Medicare+ Choice MSA	Self-explanatory
1099-Q	Qualified Tuition Program Payments	Gross distribution from a Qualified Tuition Program Payments
1099-R	Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.	Distributions from retirement or profit-sharing plans, any IRA, insurance contracts, and IRA recharacterizations.
1116	Foreign Tax Credit- Individual, Estate, Trust, or Nonresident Alien Individual	Self-explanatory

Form	Title	Description
1120	U.S. Corporation Income Tax Return	Self-explanatory
1120A	U.S. Corporation Short-Form Income Tax Return	Short version of 1120
1120S	U.S. Income Tax Return for an S Corporation (Small Business)	Specialized version of 1120
1120X	Amended U.S. Corporation Income Tax Return	Self-explanatory
2106/ 2106 EZ	Employee Business Expenses/ Unreimbursed Employee Business Expenses	Computation of allowances for expenses such as lodging, meals, entertainment and transportation
2120	Multiple Support Declaration	Indicates a person who paid less than half of a dependent's support will not claim that dependent
2350	Application for Extension of Time to File U.S. Income Tax Return (for U.S. Citizens and Resident Aliens Abroad)	Self-explanatory
2441	Child and Dependent Care Expenses	A computation to reduce tax liability for qualified taxpayer
2555 2555 EZ	Foreign Earned Income/Foreign Earned Income Exclusion	Reports foreign earned income and/or housing exclusion (U.S. citizens and resident aliens only)
2688	Application for Additional Extension of Time to File U.S. Individual Income Tax Return	Generally filed after the taxpayer has already filed a Form 4868
3468	Investment Credit	Shows computation of investment tax credit for selected activities
3800	General Business Credit	Shows computation of tax credit for selected activities
3903	Moving Expenses	Self-explanatory
3903F	Foreign Moving Expenses	For U.S. citizens or residents moving to a new principal place of work outside the U.S. or its possessions
4136	Credit for Federal Tax Paid on Fuels	Computation of tax credits for federal tax on fuels
4137	Social Security and Medicare Tax on Unreported Tip Income	Self-explanatory
4255	Recapture of Investment Credit	Shows tax on selected activities, which under earlier circumstances received an investment credit

Form	Title	Description
4506	Request for Copy or Transcript of Tax Form	Self-explanatory
4562	Depreciation and Amortization	Details depreciation schedule of properties
4684	Casualties and Thefts	Details losses
4797	Sale of Business Property (Also Involuntary Conversions and Recapture Amounts)	Reports gains/losses from sale or exchange of certain business properties and reports involuntary conversion and recapture of certain properties. Performs similar function as Schedule D
4835	Farm Rental Income and Expenses	For taxpayers who rent out farm property may show profit or loss
4868	Application for Automatic Extension of Time to File U.S. Individual Income Tax Return	Self-explanatory
4952	Investment Interest Expense Deduction	Reports expense deduction for investment interest
4970	Tax on Accumulation of Distribution of Trusts	Self-explanatory
4972	Tax on Lump-Sum Distributions	Reports taxable lump-sum distributions from retirement plans
5305-EA	Coverdell Education Savings Custodial Account	Identifies Coverdell ESA beneficiaries
5329	Additional Taxes on Qualified Plans (including IRAs) and other Tax Favored Accounts	Self-explanatory
5754	Statement by Person(s) Receiving Gambling Winnings	Self-explanatory
5884	Work Opportunity Credit	Used by businesses to claim the credit for qualified first-year wages paid to targeted group employees
6198	At-Risk Limitations	Used to figure current year profit or loss from an at-risk activity
6251	Alternative Minimum Tax – Individuals	A computation of tax for high-income taxpayers with substantial deductions
6252	Installment Sale Income	A computation of capital gain spread over time
7004	Application for Automatic Extension of Time to File Corporation Income Tax Return	Self-explanatory
8271	Investor Reporting of Tax Shelter Registration Number	Self-explanatory

Form	Title	Description
8283	Non-cash Charitable Contributions	Self-explanatory
8308	Report of a Sale or Exchange of Certain Partnership Interests	Self-explanatory
8332	Release of Claim to Exemption for Child of Divorced or Separated Parents	Shows that custodial parent agrees not to claim a dependent - allows non-custodial parent to do so
8379	Injured Spouse Claim and Allocation	This form is filed when all or part of an overpayment was, or is expected to be, used to offset a spouse's past-due Federal tax, child or spousal support, Federal nontax debt (such as a student loan) or state income tax.
8453	U.S. Individual Income Tax Declaration for Electronic Filing	Lists only total income and taxes
8582 8582CR	Passive Activity Loss Limitations/ Passive Activity Credit Limitations	Reports limitations on passive activity loss and credits
8586	Low-income Housing Credit	A tax credit for S corporations, Partnerships, Estates and Trusts
8594	Asset Acquisition Statement	Both purchaser and seller of assets must file this form when there is a group transfer of business assets
8606	Nondeductible IRAs	Part I reports nondeductible contributions to traditional IRAs and distributions from Traditional, SEP, and SIMPLE IRAs Part II outlines conversions from traditional, SEP, or SIMPLE IRAs to Roth IRAs Part III deals with distributions from Roth IRAs
8615	Tax for Children Under Age 14 Who Have Investment Income of More Than \$1,400	Self-explanatory
8736	Application for Automatic Extension of Time to File U.S. Return for a Partnership, REMIC, or Certain Trusts	Self-explanatory
8800	Application for Additional Extension of Time To File U.S. Return for a Partnership, REMIC, or for Certain Trusts	Self-explanatory
8810	Corporate Passive Activity Loss and Credit Limitations	Used by personal service corporations and closely held corporations to report limitations on passive activity loss

Form	Title	Description
8812	Additional Child Tax Credit	Self-explanatory
8814	Parents' Election to Report Child's Interest and Dividends	Self-explanatory
8815	Exclusion of Interest from Series EE and I U.S. Savings Bonds Issued After 1989	Shows excludable savings bond interest for filers with qualified higher education expenses
8818	Optional Form to Record Redemption of Series EE and I U.S. Savings Bonds Issued After 1989	Self-explanatory
8825	Rental Real Estate Income and Expenses of a Partnership or an S Corporation	Self-explanatory
8829	Expenses for Business Use of Your Home	Self-explanatory
8839	Qualified Adoption Expenses	To claim credit for qualified adoption expenses
8851	Medical Savings Accounts	To report the number of Archer MSAs established
8853	Summary of Archer MSAs and Long-Term Care Insurance Contracts	To take deduction on contributions made to a medical savings account
8863	Education Credits (Hope and Lifetime Learning credits)	To claim the Hope or Lifetime Learning credit
W-2	Wage and Tax Statement	In addition to wages earned and taxes withheld, it shows a variety of uncollected taxes and contributions or payments not included in wages
4852 (substitute 1099s)	Substitute for Form W-2, Wage and Tax Statement, or Form 1099R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRA's Insurance Contracts, Etc.	Self-explanatory

Brief Description of Common 2002 Federal Tax Schedules

Schedules	Form	Title	Description
Schedule A	1040	Itemized Deductions	Medical and Dental Expenses, Taxes Paid, Interest Paid, Gifts to Charity, Casualty and Theft Losses, Moving Expenses, Job Expenses and Miscellaneous Deductions
Schedule B	1040	Interest and Ordinary Dividends	Interest, Ordinary Dividends and Foreign Accounts and Trusts
Schedule C	1040 1041	Profit or Loss from Business (Sole Proprietorship)	Gives income/loss and deduction details for a sole proprietor operating a business or practicing a profession
Schedule C-EZ	1040	Net Profit from Business (Sole Proprietorship)	When business expenses are \$2,500 or less, use cash method of accounting, no employees, no inventory, no net loss, only one business as sole proprietor, must file Form 1065 or 1065-B and do not deduct expenses for business use of home Schedule C short version
Schedule D	1040 1041 1065 1120 1120S	Capital Gains and Losses	On the sale or exchange of personal capital assets such as stocks, bonds, other security and real estate May include previous years' losses and installment sales gains from Form 6252
Schedule E	1040	Supplemental Income and Loss	From rental real estate, royalties, partnerships, estates, trusts, S corporations, real estate mortgage investment conduits (REMICs), and windfall profits
Schedule EIC	1040 1040A	Earned Income Credit	A negative tax available to qualified low-income taxpayers with children living at home, which may result in taxpayer receiving a refund greater than tax paid
Schedule F	1040	Profit or Loss from Farming	Gives income/loss and deduction details
Schedule J	1040	Farm Income Averaging	Self-explanatory
Schedule J	1041	Accumulation Distribution for a Complex Trust	Self-explanatory
Schedule K-1	1041 1065 1065B 1120S	Partner's, Shareholder's, or Beneficiary's Share of Income, Credits, Deductions, etc.	Self-explanatory

Schedules	Form	Title	Description
Schedule R	1040	Credit for the Elderly or the Disabled	A computation to reduce tax liability for qualified low-income taxpayers
Schedule SE	1040	Self-Employment Tax	A computation of tax for self-employed persons who complete Schedule C, F, and, in some cases, K-1, or are qualified church employees Half of the tax is reported on the 1040, line 29 and treated as an offset to income to recognize the taxpayer is paying the employer and employee share of self-employment (FICA) tax
Schedule 1	1040A	Interest and Ordinary Dividends for Form 1040A Filers	Interest, Ordinary Dividends and Foreign Accounts and Trusts
Schedule 2	1040A	Child and Dependent Care Expenses for Form 1040A Filers	See Form 2441 description
Schedule 3	1040A	Credit for the Elderly or the Disabled for Form 1040A Filers	See Form 1040 Schedule R description

Guide to Implied Assets and Income: 2003-2004 Award Year

*This chart was designed to assist financial aid offices in using federal tax forms to verify the accuracy of information supplied on financial aid output documents. Note that, except for verification regulations, the collection of tax forms is optional. The chart suggests aspects of a family's cash flow and asset strength, which may be indicated by federal tax documents. Implied assets or income should be verified by following up with the aid applicant and family. This chart is merely a guide to be used while assessing a family's financial data and while exercising professional judgment in individual cases. For FAFSA data items, **(S)** refers to a **student** data item and **(P)** refers to a **parent** data item.*

Implied Assets & Income	Methodology	IRS Tax Form	Follow-up
Additional Untaxed Income	<p>A) Housing, food, and other living allowances</p> <p>B) Depreciation: There are many areas on the tax return where it is disclosed</p> <p>1) Business Depreciation</p> <p>2) Rental Property Depreciation</p> <p>3) Farm Depreciation</p>	<p>Schedule SE</p> <p>Form 4562</p> <p>Form 1040, Schedule C, Part II, Line 13</p> <p>Form 1040, Schedule E, Part I, Line 20</p> <p>Form 1040, Schedule F, Part II, Line 16</p>	<p>Depreciation could be a paper loss rather than a real loss of income in many circumstances</p> <p>May be an indication of untaxed income to be reported on the FAFSA, question 45(S) or 80(P)</p> <p>May also indicate investment, business to be reported on the FAFSA, questions 47-48(S) or 82-83(P)</p>

Implied Assets & Income	Methodology	IRS Tax Form	Follow-up
Conversions from traditional IRAs to Roth IRAs	Artificially inflates income, reflecting additional resources not available to the family	Form 1040, Lines 15a and 15b Form 1040A, Lines 11a and 11b Form 1040NR, Lines 16a and 16b Form 1099R Form 8606	Reflects taxable amount of IRA distributions but could include IRAs other than Roth conversion Identifies taxpayer and the gross distribution from pensions, annuities, retirement or profit-sharing plans, IRAs, insurance contracts, etc. Part II outlines Roth IRA conversions The net amount of the conversion is reported in line 16. This may include portions of conversions made in 1998 that, at the option of the taxpayer, were spread over a five-year period Part III deals with actual distributions taken from a Roth IRA
Savings Principal	A) Interest earned divided by an appropriate interest rate equals implied principal B) Sale of stock C) Excludable interest on Series EE and I U.S. Savings Bonds	Form 1040, Lines 8a and 8b Form 1040A, Lines 8a and 8b Form 1040EZ, Line 2 Form 1040, Schedule D, Lines 3 or 10 Form 8815, Line 14, or Form 1040, Schedule B, Line 3, or Form 1040A Schedule 1, Line 3	Suggests a value should be reported on the FAFSA, questions 47(S) or 49(S), or 82(P) or 84(P) Cash received from sale (either gain or loss) may be available for other investment or savings reported on FAFSA, questions 47(S) or 49(S), or 82(P) or 84(P) Suggests a value should be reported on the FAFSA, questions 47(S) or 82(P)

Implied Assets & Income	Methodology	IRS Tax Form	Follow-up
Investment Property Ownership		Form 1040, Line 17 or Schedule E, Part I, or Form 4562, Part IV	Suggests property ownership and indicates a value should be reported on the FAFSA, questions 47(S) or 82(P)
Investment Principal	Stocks, etc.	Form 1040, Schedule D, Lines 3 or 10 or Form 1040, Line 13 or 1040A, Line 10	Cash received from sale (either gain or loss) may be available for other investment or savings reported on FAFSA, questions 47(S) or 49(S), or 82(P) or 84(P)
Business Holdings and Assets		Form 1040, Line 12 or Schedule C (or C-EZ)	Suggests assets and implies a value that should be reported on the FAFSA, questions 48(S) or 83(P)
Interest in Partnership, Estate, Trust or S Corporation		Form 1040, Schedule E, Parts II and III	For partnerships or S Corporations, request Form 1065, Form 8582, Form 4562, Form 1120S and/or Schedule K-1 of these forms. Suggests assets and may imply a value that should be reported on the FAFSA, questions 47(S) or 48(S), or 82(P) or 83(P)
Farm Holdings and Assets		Form 1040, Line 18 or Schedule F	Do not include farm on which the family resides and materially participates in operation. Entries may imply a value that should be reported on the FAFSA, questions 48(S) or 83(P)

Forms Comparison Chart: 2003-2004

This chart indicates the location of data elements used in need analysis on different types of 2002 federal tax returns. These data elements may be subject to verification or to resolution of conflicting information. For Free Application for Federal Student Aid (FAFSA), Student Aid Report (SAR), and Institutional Student Information Record (ISIR) data items, (S) refers to student data items and (P) refers to parent data items.

Data Element	IRS 1040EZ	IRS 1040A	IRS 1040, Forms & Schedules	FAFSA/SAR/ISIR
Total Number of Exemptions	Line 5 and worksheet, Line F	Line 6d	Line 6d	41(S) 76(P)
Adjusted Gross Income from IRS Form	Line 4	Line 21	Line 35	39(S) 74(P)
U.S. Income Tax Paid	Line 10	Lines 36	Lines 55	40(S) 75(P)
Earned Income Credit	Line 8	Line 41	Line 64	44(S) 79(P)
Additional Child Tax Credit	N/A	Line 42	Line 66	44(S) 79(P)
Earnings from working (tax filers)	Line 1	Line 7	Lines 7, 12, and 18	42-43(S) 77-78(P)
Social Security benefits* (Untaxed portion)	N/A	Lines 14a – 14b (Greater than 0)	Lines 20a – 20b (Greater than 0)	44(S) 79(P)
Tax-exempt Interest	N/A	Line 8b	Line 8b	45(S) 80(P)
Untaxed Portions of IRA Distributions	N/A	Lines 11a – 11b	Lines 15a – 15b	45(S) 80(P)
Pensions and Annuities (Untaxed portion)	N/A	Lines 12a – 12b (Exclude rollovers)	Lines 16a – 16b (Exclude rollovers)	45(S) 80(P)
Traditional IRA Deductions and Payments to SEP, SIMPLE and other qualified plans	N/A	Line 17	Total of Lines 24 and 31	45(S) 80(P)
Foreign Income Exclusion	N/A	N/A	Line 21 Form 2555, Line 43 Form 2555EZ, Line 18	45(S) 80(P)
Credit for Tax on Special Fuels	N/A	N/A	Form 4136, Line 10 Total income tax credit Line 68 (non-farmers only)	45(S) 80(P)

*You are not required to verify Social Security benefits unless you have reason to believe that benefits were received and either were not reported or reported incorrectly. Acceptable documentation is all applicable Form 1099s from the Social Security Administration or a statement signed by the applicant (and/or spouse, and/or parents) certifying that the amount of Social Security benefits reported on the application is correct.

Highlights of the Form W-2

Many of the boxes on the W-2 are self-explanatory; comments are provided for selected items.

Box 1 — Wages, tips, other compensation: Includes all wages, tips, and non-cash payments subject to Federal Income Tax, prior to payroll deductions. The wages listed in Box 1 may be less than those listed in Box 3 “Social security wages” or Box 5 “Medicare wages and tips.” This would occur if the employee contributed to a tax-deferred savings plan. The actual amount of “untaxed” or “pretaxed” income that is deferred may appear in Box 12 with a letter code.

Box 2 — Federal income tax withheld: This indicates taxes withheld, not paid. This field is not used to verify taxes paid (see Forms Comparison Chart).

Box 3 — Social security wages: Social security wages to the taxable limit of \$80,400 (for 2002).

Box 5 — Medicare wages and tips: If the figure in Box 5 is greater than the figure in Box 1, this is an indication of “untaxed” or “pretaxed” income that may be included in Box 12. Due to state variations in treatment, you may want to follow up if you note a discrepancy. Unlike Box 3, Box 5 has no taxable limit.

Box 8 — Allocated Tips: A form of earnings not reported in Box 1. Should be included with earnings reported on line 7 of Form 1040 or 1040A, or line 1 of Form 1040EZ.

Box 11 — Nonqualified plans: Total amount of distributions to an employee from a nonqualified plan or section 457 plan. Any amount in this box is included on the tax return and is not reported as untaxed income.

Box 12 (boxes a through d) — Note that amounts reported in codes D through H, and S should be reported on the FAFSA [item 45(S) or 80(P)]*. These are included in FAFSA Worksheet B. Amounts identified by other codes (except code C) are not reported on the FAFSA, although an aid administrator may include these amounts as untaxed income under professional judgment or for institutional aid purposes.

A	Uncollected social security or Railroad Retirement Tax Act (RRTA) tax on tips
B	Uncollected Medicare tax on tips
C	Premiums for group term life insurance > \$50,000 (may be included as income in Boxes 1, 3, and 5)
D	Elective deferrals to a 401(k) cash or deferred arrangement
E	Elective deferrals under a section 403(b) salary reduction agreement
F	Elective deferrals under a 408(k)(6) salary reduction SEP
G	Elective, nonelective, and employer contributions to a section 457(b) deferred compensation plan
H	Elective deferrals to a section 501(c)(18)(D) tax-exempt organization plan
J	Nontaxable sick pay (not included in Boxes 1, 3, or 5)
K	20% excise tax on excess golden parachute payments
L	Substantiated employee business expense reimbursements (nontaxable)
M	Uncollected social security or RRTA tax for group term life insurance coverage over \$50,000 (former employees only)

N	Uncollected Medicare tax for group-term life insurance coverage over \$50,000 (former employees only)
P	Excludable reimbursed moving expenses paid directly to employee (not included in Boxes 1, 3, or 5)
R	Employer contributions to a Archer Medical Savings Account (MSA)
S	Employee salary reduction contributions to a section 408(p) SIMPLE retirement account (not included in Box 1)
T	Adoption benefits (not included in Box 1)
V	Income from nonstatutory stock options (included in Boxes 1, 3, and 5)

****Box 14 — Other:** This box may be used for other information an employer may want to give an employee. Examples include:

- state disability insurance taxes withheld;
- union dues;
- uniform payments;
- health insurance premiums deducted;
- nontaxable income;
- educational assistance payments;
- a member of the clergy's parsonage allowance and utilities; or
- the following contributions to a pension plan:
 - ◆ nonelective employer contributions made on behalf of an employee,
 - ◆ voluntary after-tax contributions that are deducted from an employee's pay,
 - ◆ required employee contributions, and
 - ◆ employer matching contributions.

*Code Q which previously provided information about military employee basic quarters, subsistence, and combat pay has been eliminated from the W-2. However, any such income received should continue to be reported on Worksheet B of the FAFSA.

****Box 14 Items on the W-2** The Department has reported that income listed in box 14 of the IRS's W-2 form may be disregarded. There are a few reasons for this: several of the items that the IRS suggests could be reported in box 14 are captured already on the FAFSA (in adjusted gross income for instance); also, employers could include in box 14 certain nonelective pension plan contributions, and non-elective contributions should not be counted in the need analysis; finally, because no employer is required to provide information in box 14, it is unlikely that employers will be consistent in what they report there.

There are *exceptions* though. For example, clergy parsonage allowances are frequently reported in box 14, though as stated above, employers aren't obliged to do that. Whether such allowances appear in box 14 or not, they should be included in the appropriate space on Worksheet B of the FAFSA. Also, the United States Postal Service (USPS), with approximately 850,000 employees, currently reports in box 14 voluntary employee contributions to the Thrift Savings Plan (TSP), which is a retirement plan for federal employees. These contributions should be included on Worksheet B as untaxed income. Other federal agencies put TSP contributions in the box for pension plan payments (box 13 on the 2000 W-2 and box 12 on the 2001 W-2), which therefore appear in the pension and savings blank on Worksheet B. The USPS is considering putting TSP contributions on the 2002 W-2 in the same box other federal agencies do. If you find a box 14 item that belongs on Worksheet B, you can include it.