



NASFAA ISSUE BRIEF

THE FAFSA ACT

MAY 2019

KEY TAKEAWAYS

1. THE BIPARTISAN FAFSA ACT TAKES CRITICALLY NEEDED STEPS TO SIMPLIFY THE FREE APPLICATION FOR FEDERAL STUDENT AID (FAFSA) FILING PROCESS FOR STUDENTS AND FAMILIES BY ALLOWING FOR DIRECT DATA SHARING BETWEEN THE DEPARTMENT OF EDUCATION (ED) AND THE INTERNAL REVENUE SERVICE (IRS).
2. THE LEGISLATION WOULD MEANINGFULLY REDUCE THE BURDEN OF INCOME VERIFICATION FOR APPLICANTS AND INSTITUTIONS, AND STREAMLINE ENROLLMENT IN AND RENEWAL OF INCOME-DRIVEN REPAYMENT (IDR) PLANS FOR BORROWERS.
3. CONGRESS SHOULD IMMEDIATELY CONSIDER AND PASS THE FAFSA ACT, PASSED IN THE SENATE BY UNANIMOUS CONSENT IN 2018.

The FAFSA Act would simplify the federal student aid application, verification, and loan repayment processes.

The bipartisan “Faster Access to Federal Student Aid (FAFSA) Act” would, through better integration between the Department of Education (ED) and the Internal Revenue Service (IRS), simplify the federal student aid application, verification, and loan repayment processes. This bill takes the important step of amending both the Internal Revenue Code (IRC) and Higher Education Act (HEA) to allow for cross-agency data sharing that would improve the federal student aid system for students and borrowers. As written, the IRC does not allow the IRS to share taxpayer data directly with ED. The IRS Data Retrieval Tool (DRT) in its current form works around this by allowing FAFSA applicants to import their own tax information from the IRS into the FAFSA themselves, through a clunky process embedded in the FAFSA. In practice, the bill would permit ED to receive data directly from the IRS, an improvement over the current applicant-initiated IRS DRT. In addition to providing a more streamlined, less burdensome process for students and families, the bill would create a more secure data-sharing experience, reduce applicant errors in reported income, and reduce improper payments.

In the 115th Congress, the FAFSA Act (S. 3611/H.R. 7386) was sponsored by Sens. Lamar Alexander (R-TN), Patty Murray (D-WA), Cory Gardner (R-CO), Sheldon Whitehouse (D-RI), Susan Collins (R-ME), Angus King (I-ME), John Cornyn (R-TX), Debbie Stabenow (D-MI), Thom Tillis (R-NC), and Maggie Hassan (D-NH). Reps. Tim Walberg (R-MI) and Suzan DelBene (D-WA) led the House companion bill. On Dec. 20, 2018, the FAFSA Act cleared the Senate by unanimous consent.

FAFSA SIMPLIFICATION

The Problem: The federal government has grappled with the trade-off of simplification versus accuracy while trying to improve the FAFSA, sometimes adding questions to try to achieve more specificity about a family’s circumstances, and in other years taking away questions that were so complex they were deterring some students and families from even completing the form. The FAFSA was created to help ensure limited federal aid funds are targeted to those who truly need financial aid, and the federal student aid programs were developed to ensure the inability to pay wouldn’t prevent qualified students from pursuing a higher education. In 2017, an estimated \$2.3 billion in federal financial aid went unclaimed because eligible Class of 2017 high school graduates failed to submit the FAFSA.¹

The current IRS DRT is a clunky, two-step process, requiring the applicant to obtain their own tax information from the IRS, and then import that information into the FAFSA. In addition, there are categories of applicants who currently are ineligible to use the DRT, such as married applicants filing as head of household or married filing separately. Such applicants must manually enter their tax data into their FAFSA.

FAFSA Act Improvements: With the direct tax information sharing between the IRS and ED created in the bill, the FAFSA Act would significantly streamline the FAFSA-filing process for students and families. Under the FAFSA Act, when a student fills out the FAFSA, their income data will be directly imported from the IRS, simplifying the process as well as keeping applicant information more secure. Facilitating information exchange lays the groundwork for future simplification efforts.

The FAFSA Act would significantly streamline the FAFSA-filing process for students and families.

¹ Helholtski, Anna, “How Students Missed Out on \$2.3 Billion in Free College Aid,” NerdWallet: Oct. 9, 2017, <https://www.nerdwallet.com/blog/loans/student-loans/missed-free-financial-aid/>

The FAFSA Act would reduce burden for applicants and decrease their odds of being selected for verification.

VERIFICATION RELIEF

The Problem: In order to qualify for federal financial aid, students must complete the FAFSA. Each year, ED selects millions of applications for further review. For those selected applications, schools are required to validate the submitted information to ensure accuracy of both the FAFSA data and the financial aid awarded. This additional step in the aid application process is called “verification,” and remains a complicated and time-consuming burden for the students and families who are most in need of financial aid. While verification is an important step in maintaining the integrity of federal aid programs, it imposes significant burden on students and aid administrators.

As written, the IRC does not allow the IRS to share taxpayer data directly with ED. The IRS DRT in its current form works around this by allowing FAFSA applicants to import their own tax information from the IRS into the FAFSA themselves, through a clunky process embedded in the FAFSA. While this system is an improvement over requiring applicants to manually input their tax information, the DRT is not available for all applicants. Non-tax filers selected for verification currently have to prove their non-filing status through a burdensome Verification of Non-filing (VONF) process.

FAFSA Act Improvements: The FAFSA Act would amend the IRC to allow the IRS to share tax information directly with ED. The allowable information to be disclosed would include all items currently imported via the DRT, and would also include “the filing status of such taxpayer,” including whether the applicant had filed taxes, eliminating the need for the burdensome VONF process.

With this change in place, all applicants would be eligible to have their tax information shared directly between the IRS and ED. This improvement would reduce burden for applicants and decrease their odds of being selected for verification, as it would decrease the need for applicants to enter income information manually on the FAFSA, reducing the amount of time to complete the form, as well as resulting in fewer mistakes because of human error.

REPAYMENT SIMPLIFICATION

The Problem: As national federal student loan debt rises to over \$1.5 trillion, having a repayment system that is clear and easy to navigate is paramount in ensuring borrowers are able to successfully repay their loans. The current federal student loan repayment system has eight different repayment plans, including five different income-driven repayment (IDR) plans. As of March 2018, 29% of borrowers, and 49% of all dollars in repayment, were enrolled in an IDR plan; however, these plans require borrowers to take proactive and cumbersome steps to enroll and stay enrolled. To recertify their existing IDR plan, a borrower must provide updated information about their income and family size annually, which can sometimes take up to 60 days for servicers to review.

FAFSA Act Improvements: The bill further permits taxpayer data sharing between IRS and ED for the purpose of verifying income for applicants requesting or renewing eligibility for income-driven loan repayment plans. By allowing the easy transfer of tax information between the IRS and ED for renewal of a borrower’s repayment plan, it ensures that borrowers stay enrolled in their repayment plan, and don’t find their monthly payments suddenly skyrocketing if paperwork isn’t completed or processed in the timeframe necessary. The data-sharing provision also helps borrowers avoid added interest charges or delays in loan forgiveness, in addition to aiding in income verification for the three-year monitoring period for borrowers who have received a discharge for total and permanent disability. 🌐

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² NASFAA, “Issue Brief: Verification,” October 2018, https://www.nasfaa.org/issue_brief_verification

³ College Board, “Trends in Student Aid 2018”, October 2018, <https://trends.collegeboard.org/student-aid/figures-tables/distribution-outstanding-federal-direct-loan-dollars-and-recipients-repayment-plan>



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