

Most Frequently Asked Questions from NASFAA's Verification 2020-21: Follow-Up January 22, 2020



The following are answers to the most frequently asked questions presented during the webinar. You may search or browse the [AskRegs Knowledgebase](#) for answers to any follow-up questions you may have and/or submit them as AskRegs tickets.

Question	Answer
<p>1. Is a W-2 that comes directly out of tax software considered a valid alternative W-2?</p> <p>Since these do not come directly from the employer but are entered by the taxpayer, I am assuming this type of W-2 cannot be accepted for verification.</p>	<p>Generally, no, with one exception.</p> <p>The Federal Register Notice announcing verification documentation requirements for the 2020-21 award year states that schools may accept an IRS W-2 or an “equivalent document.” According to the U.S. Department of Education (ED), the ability to accept an equivalent document for a W-2 means a document submitted by an entity that issues a similar document but may call it by a different name and that easily can be identified as coming directly from or generated by the tax authority or employer. A W-2 generated within or from tax preparation software does not meet this criterion.</p> <p>The exception is that a school may collect a signed statement as an acceptable alternative if the tax filer does not have and cannot obtain a W-2 from the employer or agency, as explained in the <i>Federal Register Notice</i>:</p> <p>“An individual who is required to submit an IRS Form W-2 or an equivalent document but did not maintain a copy should request a duplicate from the employer who issued the original or from the government agency that issued the equivalent document. If the individual is unable to obtain a duplicate W-2 or an equivalent document in a timely manner, the institution may permit that individual to provide a signed statement, in accordance with 34 CFR 668.57(a)(6), that includes—</p> <ul style="list-style-type: none"> (a) The amount of income earned from work; (b) The source of that income; and (c) The reason why the IRS Form W-2, or an equivalent document, is not available in a timely manner.” <p>In this case, the individual could sign the wage statement that is generated from tax preparation software and submit it along with the reason why the IRS Form W-2, or an equivalent document, is not available in a timely manner. The reason can be written on the document generated from tax preparation software, as long as it is signed by the tax filer and contains all of the required information listed above.</p> <p>See also NASFAA AskRegs Knowledgebase Q&A, “Is a W-2 Generated From Tax Preparation Software Acceptable For Verification?”</p>

Question	Answer
<p>2. I thought ED left it up to the school whether to accept tax returns or tax transcripts.</p> <p>Can a school put a policy in place stating that they will not accept tax returns that are completed by hand?</p> <p>ED's January 9, 2019 Electronic Announcement, Changes to 2018-2019 and 2019-2020 Verification Requirements says that schools "may" use a tax return in lieu of a tax transcript, but it does not say "must." Doesn't that give us the choice of what we want to accept?</p>	<p>No. Either a printed or handwritten tax return is acceptable. A school may request a tax transcript in lieu of a signed tax return, but may not require it unless the school has reason to doubt the validity of the tax return.</p> <p>As ED noted on their Program Integrity website in guidance dated November 19, 2019:</p> <p>"DS-Q3. May an institution require an applicant selected for verification by the Department to submit a tax transcript and only accept a signed copy of the income tax return if the applicant is unable to obtain the tax transcript?</p> <p>DS-A3. An institution may request a copy of a tax return transcript in lieu of a signed copy of an income tax return but not require it. However, if an institution has concerns about the validity of the income tax return submitted, it may require a tax return transcript or any other documentation specified in the annual Federal Register notice. The institution must document the reason why the income tax return was not acceptable."</p> <p>See also NASFAA AskRegs Knowledgebase Q&A, "Can a School Require Copies of Tax Return Transcripts For Federal Verification?"</p>
<p>3. Can a school select ALL students who filed (or whose parents filed) an amended tax return for full verification (V1)?</p>	<p>Yes. Nothing would prevent a school from enacting a policy to institutionally select all applicants with amended tax returns for V1 verification. The school must, however, apply such a policy consistently.</p> <p>When developing appropriate institutional selection policies, it is important to carefully balance the merits of safeguarding taxpayer dollars against the potential burdens for families and the institution. For example, consider whether the data available to you indicates a high incidence of errors in these applications or a high rate of selection by ED.</p> <p>See also NASFAA AskRegs Knowledgebase Q&A, "Should We Verify FAFSA Data Beyond Federal Verification Requirements?"</p>
<p>4. When accepting tax preparer information on a tax return in lieu of a tax filer's signature, is the tax preparer's address really required?</p> <p>Page AVG-36 of the 2019-20 FSA Handbook does not mention that the tax preparer's address is required, only his name and SSN, EIN, or PTIN.</p>	<p>Yes. The chart on page AVG-36 of the 2019-20 <i>FSA Handbook</i> is a high-level summary of the signature requirements. The Federal Register Notice announcing verification documentation requirements for the 2020-21 award year is the authoritative source, in which ED indicates the preparer's address is required:</p> <p>"The copy of the 2018 income tax return must include the signature of the tax filer, or one of the filers of a joint income tax return, or the signed, stamped, typed, or printed name and address [emphasis added] of the preparer of the income tax return and the preparer's Social Security Number, Employer Identification Number, or Preparer Tax Identification Number."</p>

Question	Answer
4. (continued)	<p>This also reflects the regulation at 34 CFR 668.57(a)(7): “For the purpose of this section, an institution may accept in lieu of a copy of an income tax return signed by the filer of the return or one of the filers of a joint return, a copy of the filer’s return that includes the preparer’s Social Security Number, Employer Identification Number or the Preparer Tax Identification Number and has been signed, stamped, typed, or printed with the name and address of the preparer of the return.”</p>
5. When verifying amended tax filers, I thought we could not accept Tax Account Transcripts alone for verification purposes. Can we accept this document alone?	<p>You are correct, the Tax Account Transcript is not acceptable without additional documentation when an individual has filed an amended return. The Tax Account Transcript can be used to complete verification without a copy of the Form 1040X, but only in conjunction with either a signed copy of the tax return that was filed with the IRS or an IRS Tax Return Transcript (signed or unsigned) containing information from the original tax return filed with the IRS Tax Return Transcript or tax return copy.</p> <p>Note that an IRS Record of Account Transcript can be used by itself (without a 1040X, Tax Return Transcript, tax return, or use of the Data Retrieval Tool) to complete verification of the income data; however, the IRS Record of Account Transcript may be more difficult to interpret and might require the assistance of the IRS or a tax expert.</p> <p>See also NASFAA AskRegs Knowledgebase Q&A, “What Documentation is Required to Complete Verification When an Individual Files an Amended Tax Return?”</p>
6. If it is fairly clear that someone incorrectly filed as head of household, but their tax return was completed by a tax professional, can a school simply accept that “a tax professional said it was allowable” to complete verification and move on? Or would that be conflicting information?	<p>If you have conflicting information that causes you to question the accuracy of an individual’s filing status, the tax return itself would not be sufficient to resolve the conflicting information. Essentially, receipt of the tax return <i>caused</i> the conflict.</p> <p>To resolve the conflict, the school determines what documentation to accept. There is no guidance specifying whether a notice or letter from a tax preparer would or would not resolve the discrepancy. If you still question the filing status despite having a letter from the tax preparer, you must require the tax filer to provide additional documentation (perhaps from the IRS) or an amended tax return.</p>

Question	Answer
<p>7. Regarding the treatment of earnings from Uber as self-employment income, does the same apply to other services, such as Lyft or InstaCart? Or is this a rule specific to Uber because they specifically say so on their website?</p>	<p>Yes, the same principles apply to other services such as Lyft and InstaCart. According to IRS Publication 17, an individual is considered self-employed if he or she:</p> <ul style="list-style-type: none"> • Carries on a trade or business as a sole proprietor, • Is an independent contractor, • Is a member of a partnership, or • Is in business for himself or herself in any other way. <p>The IRS provides some additional information about ridesharing, delivery services, and other emerging forms of self-employment on their Gig Economy Tax Center webpage. The following excerpts are particularly relevant:</p> <p>“Gig Economy Income is Taxable</p> <p>You must report income earned from the gig economy on a tax return, even if the income is:</p> <ul style="list-style-type: none"> • From part-time, temporary or side work • Not reported on an information return form—like a Form 1099-K, 1099-MISC, W-2 or other income statement • Paid in any form, including cash, property, goods, or virtual currency” <p>“What is Gig Work?</p> <p>Gig work is certain activity you do to earn income, often through an app or website (digital platform), like:</p> <ul style="list-style-type: none"> • Drive a car for booked rides or deliveries • Rent out property or part of it • Run errands or complete tasks • Sell goods online • Rent equipment • Provide creative or professional services • Provide other temporary, on-demand or freelance work <p>Note: This list does not include all types of gig work.”</p> <p>“What are Digital Platforms?</p> <p>Digital platforms are businesses that match workers’ services or goods with customers via apps or websites. This includes businesses that provide access to:</p> <ul style="list-style-type: none"> • Ridesharing services • Delivery services • Crafts and handmade item marketplaces • On-demand labor and repair services • Property and space rentals <p>Note: This list does not include all types of digital platforms.”</p>

Question	Answer
8. Can you please repeat what three tax concepts financial aid administrators are required to know?	<p>As noted on page AVG-115 of the 2019-20 <i>FSA Handbook</i>, Financial aid administrators are expected by ED to know:</p> <ol style="list-style-type: none"> 1. Whether a person was required to file a tax return; 2. What the correct filing status for a person should be; and 3. That an individual cannot be claimed as an exemption by more than one person. <p><i>IRS Publication 17</i> is a valuable resource to assist in making these determinations.</p>
9. For those three tax concepts that we are responsible for knowing, must we then require the parent/student to file/amend before we can verify and process aid?	<p>Yes. If the school has reason to believe that an individual failed to file taxes when required to do so, or filed taxes using an incorrect status, or that an individual was claimed as an exemption by more than one person, it would constitute conflicting information which must be resolved. The resolution would be to obtain a properly filed or amended tax return, or to obtain other confirmation from the IRS or a tax professional that taxes were filed correctly. The school may place the burden of proof on the student to provide documentation sufficient to resolve the conflict.</p>
10. For 2018 taxes, exemptions no longer exist. Does this impact the need to know that an individual cannot be claimed as an exemption by more than one person?	<p>No. Even though personal exemptions are not claimed on the tax return beginning with the 2018 tax year, dependents are still listed on the tax return for the purpose of qualifying for certain tax credits. Schools still must evaluate whether this has been done incorrectly. For example, two parents filing separately cannot both list the same dependent on their individual tax returns.</p> <p>Note that the number of exemptions is no longer asked of applicants beginning with the 2020-21 Free Application for Federal Student Aid (FAFSA®).</p> <p>See also NASFAA AskRegs Knowledgebase Q&A, “Do Exemptions Claimed on an Independent Student’s FAFSA Need to Match the Number of People in the Household?”</p>
11. How can an IRS proof of nonfiling letter be requested online?	<p>An IRS verification of nonfiling letter can be requested online using the Get Transcript Online process. For more information, see also https://www.irs.gov/individuals/tax-return-transcript-types-and-ways-to-order-them.</p>
12. For a student who is currently independent based on marital status alone, if the student gets divorced would they go back to dependent status in the following year?	<p>It depends. In the following award year, if the student cannot answer “yes” to any of the dependency status questions, the student would be considered dependent. Having been married previously is not a factor in determining dependency status.</p> <p>See also NASFAA AskRegs Knowledgebase Q&A, “Is a Divorced Student Under the Age of 24 a Dependent Student Again?”</p>

Question	Answer
13. For the “Rocky” example (slides 94-97), is Rocky included in the number in household?	<p>Yes, Rocky is still included in the household if the parents’ marital status is married and they are not separated for the purpose of ending the marriage.</p> <p>See also NASFAA AskRegs Knowledgebase Q&A, “Should an Incarcerated Parent’s Information Be Reported on the FAFSA?”</p>
14. How would an incarcerated person obtain a nonfiling document?	<p>There is no exemption for incarcerated persons from the Title IV requirement to verify nonfiling status. According to the <i>Federal Register</i> Notice, the individual who has not filed a federal income tax return must make a good-faith effort to obtain confirmation of nonfiling.</p> <p>That said, if the individual attempted but was unable to obtain confirmation of nonfiling, and the school has no reason to question the individual’s good-faith effort to obtain the required documentation, the school may accept as a replacement for verification/confirmation of nonfiling:</p> <ul style="list-style-type: none"> • A signed statement certifying: <ul style="list-style-type: none"> ➤ The individual attempted to obtain the verification or confirmation of nonfiling from the IRS or other tax authority and was unable to obtain it; and ➤ The individual has not filed and is not required to file an income tax return for the tax year being verified; and ➤ The sources and amounts from each source of any income earned from work by the individual for the tax year being verified; and • A copy of IRS Form W-2, or an equivalent document, for each source of employment income received by the individual for the tax year being verified. <p>See also GEN-19-02.</p>
15. For the question about Rocky and the incarceration, what if the mother considers herself separated for her marital status on the FAFSA and Verification Worksheet? Would the nonfiler documentation for Rocky still be required?	<p>No. If the mother’s marital status was separated, then the verification of nonfiling would not be required for Rocky since only the custodial parent’s information would be required.</p>
16. A student filed taxes as single, but his marital status is married. His spouse lives overseas. Is the filing status correct?	<p>It depends on the date of the student’s marriage.</p> <p>If the student was single as of the end of the relevant tax year—for example, as of December 31, 2018 for the 2020-21 award year—this determines the correct filing status for the student’s federal income tax return.</p> <p>If the student married after filing the tax return and before filing the FAFSA, then the filing status is not in conflict; however, the student must complete the FAFSA using combined income and tax information for himself and his spouse.</p>

Question	Answer
16. (continued)	<p>On the other hand, if the student was married as of the end of the relevant tax year, then the filing status of single may be incorrect. A married person cannot file as single. A married person must file taxes as married filing jointly, married filing separately, or head of household (as married persons living apart, for example).</p> <p>See the IRS website at https://www.irs.gov/newsroom/correct-filing-status for more information, as well as <i>IRS Publication 17</i>.</p>
17. In some cases, parents and students are asked on the FAFSA if they would like to skip the asset questions, and sometimes the entire student income and asset questions are skipped. How will this affect our verification process?	<p>Typically, when income and asset questions are skipped it is because it appears the student may qualify for either the Simplified Needs Test (SNT) or the Automatic Zero EFC.</p> <p>SNT-eligible applicants who are selected for verification must verify all relevant FAFSA/ISIR information related to their Verification Tracking Group.</p> <p>For dependent applicants who qualify for the Automatic Zero EFC, only the following FAFSA/ISIR information must be verified if it is part of the assigned Verification Tracking Group:</p> <ul style="list-style-type: none"> • The parents' AGI if they were tax filers (V1 and V5); • The parents' income earned from work if they were nontax filers (V1 and V5); • High school completion (V4 and V5); and • Identity and Statement of Educational Purpose (V4 and V5). <p>The requirements differ slightly for independent students who qualify for an automatic-zero EFC:</p> <ul style="list-style-type: none"> • The applicant's and spouse's AGI if they were tax filers (V1 and V5); • The applicant's and spouse's income earned from work if they were nontax filers (V1 and V5); • The number of household members to determine if the independent applicant has one or more dependents other than a spouse (V1 and V5); • High school completion (V4 and V5); and • Identity and Statement of Educational Purpose (V4 and V5). <p>For more information, see the <i>Federal Register Notice</i> announcing verification documentation requirements for the 2020-21 award year, NASFAA AskRegs Knowledgebase Q&A, "Must We Verify Income If a Student Or Parent Qualifies For the Automatic-Zero EFC?" and ED's Program Integrity Q&A website (VI-Q9/A9).</p>

Question	Answer
18. Do we need IRS nonfiler confirmation for students with an Automatic Zero EFC?	<p>It depends upon the student's dependency status.</p> <p>For dependent students, IRS verification of nonfiling would not be required for the student; however, it would be required for the parent(s).</p> <p>For independent students, verification of nonfiling would be required for the student and spouse (if applicable).</p>
19. For Slide 105, do we need a divorce decree/proof of separation and a statement regarding income in order to separate income?	<p>No, you are not required to collect a divorce decree or proof of separation unless you believe there is conflicting information. You only need to collect documentation necessary to separate the income, such as W-2 forms and tax schedules.</p> <p>See also NASFAA AskRegs Knowledgebase Q&A, "Are Schools Required To Verify Parents' Marital Status Or the Validity Of a Same-Sex Marriage?"</p>
20. What if we need to correct a previous year's FAFSA because of incorrect marital status, but it's past the point of being able to make corrections? Would we have to return money and declare it as an overpayment?	<p>Yes. Under 668.16(f), you must correct any conflicting information related to the prior award year data that would affect a student's Title IV eligibility, even after the award year is over or "closed." This is true regardless of the source of the conflict and regardless of whether the student is selected for verification. The only circumstances when the school is not required to resolve conflicting are:</p> <ul style="list-style-type: none"> • When the student dies during the award year; or • When the conflicting information is received after the student is no longer enrolled and will not re-enroll at the school (NOTE: if the student later re-enrolls, the school is again required to resolve all conflicting information). <p>This is an overpayment issue for which the student is liable, which must be resolved before the student can be eligible for additional Title IV aid of any kind. Although the award year is closed, the school must collect the necessary documentation to resolve the conflicting information, make the corrections to the prior award year data, and make any necessary aid adjustments. Your regional School Participation Division can provide instructions on how to make the necessary aid adjustments for a closed award year.</p> <p>See also NASFAA AskRegs Knowledgebase Q&A, "Do Schools Have to Correct Errors in Prior Year Data?"</p>

Question	Answer
<p>21. If a student got married in August of 2019, then completed her FAFSA and was CPS-selected, but did not include her spouse's 2017 income because he did not file a tax return for his \$43,000 in income, do we have to stall verification until he files a tax return?</p>	<p>If the student completed a 2019-20 FAFSA after getting married, so the marital status is married at the time of filing the FAFSA, the specified year income is 2017 and all income, including the spouse's income, is required. If the spouse did not file taxes for 2017, and the student was selected for verification, based on the amount of income the spouse earned, he is required to file according to IRS tax law. Therefore, you have conflicting information and you cannot complete verification until either a tax return is filed by the student's spouse or other documentation is provided sufficiently resolves the conflict.</p> <p>See also NASFAA AskRegs Knowledgebase Q&A, "What Are the Options When the Parents Have Not Filed Taxes and Verification Is Required?"</p>
<p>22. For an IRS Request Flag of "07", if a student filed an amended return, do we need to request the 1040X along with the student's original tax return?</p> <p>We have checked AskRegs and a Q&A indicates that you need both. We thought the "07" IRS Request Flag was the original return that was transferred from the IRS, which means that we only need to request the amended return?</p>	<p>The IRS Request Flag value of "07" only indicates that the student did amend the tax return. The amended tax information is not transferred from the IRS, so you do need to request the amended tax and income information.</p> <p>How that is done depends upon whether the student was selected for verification. If the student was selected, you would need a signed Form 1040X, and you also must collect either a signed original tax return, a tax return transcript, or a previous ISIR with an IRS Request Flag of "02" to document the original information.</p> <p>If the student is not selected for verification, you need either the documents above or a signed written statement explaining the changes.</p> <p>For more information, see NASFAA AskRegs Knowledgebase Q&A, "How Do We Resolve IRS Request Flag 07 for Amended Tax Returns?"</p>
<p>23. Are W-2's required for anything?</p> <p>If a student submits a tax transcript, do we need their W-2 form?</p>	<p>In most cases, no. You do not need a copy of the W-2 unless the individual is a nontax filer, extension filer, or if you need to separate income. Otherwise, a W-2 is not required unless you have conflicting information that needs to be resolved.</p> <p>See also NASFAA AskRegs Knowledgebase Q&A, "Are We Required To Collect W-2s for a Tax Filer In the Verification Tracking Group V1?"</p>

Question	Answer
<p>24. Both parents filed as head of household. Both are in the military. They were geographically separated by deployment. The father was deployed for two years and then returned home, and then the mother was deployed for a year and a half. The parents never had the intention of separating. Should they amend their filing status?</p>	<p>Yes. Unless they can provide documentation from a tax professional that confirms they filed correctly, it appears they would need to amend their return because this would be considered a Temporary Absence. According to the IRS, spouses are considered to live together even if one is temporarily absent.</p> <p>The IRS provides the following guidance concerning temporary absences: “You and your qualifying person are considered to live together even if one or both of you are temporarily absent from your home due to special circumstances, such as illness, education, business, vacation, military service [emphasis added], or detention in a juvenile facility. It must be reasonable to assume the absent person will return to the home after the temporary absence.”</p> <p>See <i>IRS Publication 17</i> for more information.</p>
<p>25. If the school chooses to require the student to provide documentation to verify half support for other individuals, can the school then have a policy to automatically exclude those individuals if documentation is not provided?</p>	<p>No. If documentation requested during the verification process is not submitted, verification is considered incomplete. Incomplete verification means the student is not eligible for any Title IV aid. It would be inappropriate to simply exclude the individual and proceed with verification, if that specific piece of information is not provided.</p>
<p>26. Sometimes our school, with the authorization of the tax filer, completed the Form 4506-T to receive the tax transcript by mail. Do we have to pay the \$2.00 if we use this method?</p>	<p>Effective July 1, 2019, the IRS no longer provides transcripts requested on Form 4506, Form 4506-T and Form 4506T-EZ to third parties, including colleges and universities. At this time, the only way to directly transmit a student’s or parent’s tax information to a school is through use of the IRS DRT or by filing a request through the Income Verification Express Service (IVES). A school can register to participate in IVES. However, there is a \$2.00 fee for each transcript requested through the IVES process, and schools cannot pass this fee along to the student or parent.</p> <p>See also the June 4, 2019, IRS New Release, “IRS takes additional steps to protect taxpayer data; plans to end faxing and third-party mailings of certain tax transcripts.”</p>