



Verification and Professional Judgment in a PPY World

March 22, 2017



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March 2017



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Verification and Professional Judgment in a PPY World


Presented March 22, 2017

National Association of Student
Financial Aid Administrators

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Verification and Professional Judgment in a PPY World

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Introduction

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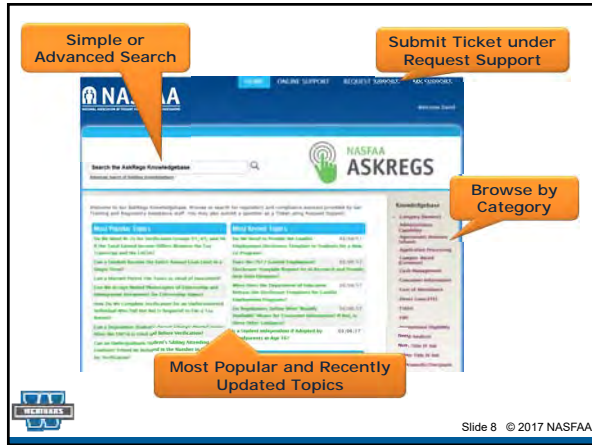
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AskRegs Knowledgebase

Searchable compilation of answers to financial aid administrators' questions










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What Are Our Verification Options While the IRS Data Retrieval Tool Is Unavailable?



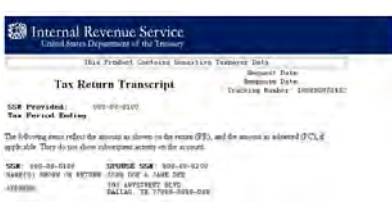
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Answer

- IRS DRT is currently “unavailable for several weeks”
- Reason cited by IRS is potential identity theft
- Normal tax filer documentation applies when IRS DRT is not used
- Schools may see spike in verification selections
- NASFAA is pushing for use of a signed copies of tax returns

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If We Verified Income Information for a Tax Filer or a Nontax Filer in 2016–17, Do We Need to Collect That Same Documentation Again for 2017–18?



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Answer

No

- If verified for 2016–17, same documents may be used for 2017–18 if they meet 2017–18 documentation requirements
 - Includes IRS Data Retrieval Tool (IRS DRT) data with IRS Request Flag of "02"
- See Dear Colleague Letter GEN-16-07



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Answer (continued)

- **Do not** need to collect documentation again for a tax filer:
 - Adjusted gross income (AGI)
 - U.S. income tax paid
 - Untaxed portions of IRA distributions
 - Untaxed portions of pensions
 - IRA deductions and payments
 - Tax exempt interest income
 - Education tax credits



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Answer (continued)

- **Do not** need again for nontax filers:
 - W-2 for each source of employment
 - Signed statement indicating tax return was not filed and listing amounts and sources of earned income
 - IRS Verification of Nonfiling Letter if collected for 2016–17 and dated on or after 10/1/16
- **Do** need IRS Verification of Nonfiling Letter if not collected for 2016–17 or if collected and dated before 10/1/16



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Can We Use IRS Data Retrieval Tool Data from 2017–18 to Verify and Correct 2016–17 Tax Data? Vice Versa?

Student Tax Information

Attention! You must provide financial information from your 2015 tax records on the following pages:

- Application was successfully saved.
- Did you use the IRS Data Retrieval Tool (DRT) to transfer your tax return information from the IRS into your FAFSA, student aid (following instructions)?
- For 2015, what is your tax filing status according to your tax return?
 - Single
 - Married
 - Head of household
 - Widow
 - Other
- To determine if you can use the IRS Data Retrieval Tool (DRT) to transfer your tax return information from the IRS into your FAFSA, answer the following questions:
 - Did you file a Form 1040, 1040A, 1041, or 1042 for 2015?
 - Yes No
 - Did you file a Private Inquirer or Foreign Tax return for 2015?
 - Yes No

Applying in 2016 and earlier if you transfer your tax return information into this FAFSA with the IRS DRT.

Next Step

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Answer

Yes

- IRS DRT data with IRS Request Flag of “02” (indicating the data were transferred and not subsequently changed) from either award year, can be used to submit a correction to the other award year
- Tax data is considered verified for both years
- True with or without Comment Code 399
- See Early FAFSA FAQ G-Q15/A15



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Is IRS Form 13873-IV Acceptable As an IRS Verification of Nonfiling Letter?

Department of the Treasury - Internal Revenue Service

Form 13873-IV
(Rev. 11-2014)

RAIVS Requests for Verification of Non-filing Taxpayer Accounts

Date: 04/16/2018

RE: REQUEST FOR [NAME OF TAXPAYER]

Thank you for your inquiry.

We don't have a record that you filed a tax return for tax years 2018.

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Answer



Yes

- Any version of Form 13873 is acceptable IF it clearly states:
 - Form is provided as verification of nonfiling; or
 - IRS has no record of a tax return
- Not acceptable if:
 - Nonspecific to request for verification of nonfiling
 - States document request could not be processed or could not be honored



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Department of the Treasury – Internal Revenue Service

Form **13873-V**
(Rev. 11-2014)

RAIVS Requests for Verification of Non-filing Taxpayer Accounts

Date: 09/18/2016

RE: 4509-T REQUEST FOR [NAME OF TAXPAYER]

Thank you for your inquiry.



We don't have a record that you filed a tax return for tax years 2015

This letter serves as your verification of non-filing for the years listed for taxpayer [NAME OF TAXPAYER]

If you have questions, you can call our Customer Service Area:

- 1-267-941-1000 for returns with a foreign address (not a toll-free number)
- 1-877-829-5500 for Exempt Organization returns
- 1-800-829-0922 for Individual returns
- 1-800-829-0115 for business returns

You can get the forms, schedules, or publications you need by visiting our website at www.irs.gov/formspubs or calling 1-800-829-3676.

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Answer (continued)

- Examples include:
 - IRS Form 13873-V, RAIVS Requests for Verification of Non-filing Taxpayer Accounts
 - IRS Form 13873-T, RAIVS Requests for Tax Information Documents or Transcripts of Tax Accounts
 - May be other versions



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Answer (continued)

See 2/23/17 Electronic Announcement, *Verification—IRS Documentation Requests, Uses, and Messaging*

IRS Request Type Submitted	IRS Document Requested	Applicable tax year record on file with the IRS?	Request for document to be sent to a 3 rd party?	IRS will send...	Where mailed to?	When?
Form 4506-T If Form 4506-T was prepared for someone, IRS Form 4506-T may be provided to the filer after February 23, 2017 Electronic Announcement for more information.	<ul style="list-style-type: none"> Tax Return Transcript Tax Account Transcript Record of Account Wages & Income Transcript 	Yes	No	Transcript or Record	To tax filer address on Line 9 of Form 4506-T	Within 10 business days from when the IRS receives Form 4506-T
	<ul style="list-style-type: none"> Tax Return Transcript Tax Account Transcript Record of Account Wages & Income Transcript 	Yes	Yes	Transcript or Record	To 3 rd party address on Line 9 of Form 4506-T	Within 10 business days from when the IRS receives Form 4506-T
	<ul style="list-style-type: none"> Tax Return Transcript Tax Account Transcript Record of Account Wages & Income Transcript 	No	No	Transcript with indication that no record is found (this is acceptable documentation to verify nonfiling)	To tax filer address on Line 9 of Form 4506-T	Within 10 business days from when the IRS receives Form 4506-T



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Answer (continued)

- IRS Verification of Nonfiling Letter can only be requested using:
 - IRS "Get Transcript Online" tool; or
 - By submitting IRS Form 4506-T and checking box 7
- Not available via IRS Get Transcript by Mail or 1.800.908.9946
- Must be submitted for student, independent student's spouse, and each parent on the FAFSA, if the individual did not file taxes and student is selected for verification (even if \$0)



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Additional Information

To complete verification, **any** nontax filer subject to verification must provide all of the following:

- W-2 or equivalent from each source of income
- Signed/dated worksheet or statement indicating:
 - Person has not and is not required to file a tax return with IRS or foreign taxing authority
 - Sources and amounts of all income for tax year
- IRS Verification of Nonfiling Letter dated on or after 10/1/16 (starting with 2017–18 award year)



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Additional Information

- If W-2s show income that would require filing a U.S. tax return, application processing stops until such time as a tax transcript can be provided
- Individuals who do not have an SSN and are unable to get one can apply with the IRS for an individual taxpayer identification number (ITIN) to file taxes



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2015 Income Thresholds for Most Individuals

IF your filing status is...	AND at the end of 2015 you were...*	THEN file a return if your gross income was at least...**
single	under 65	\$10,300
	65 or older	\$11,850
married filing jointly***	under 65 (both spouses)	\$20,600
	65 or older (one spouse)	\$21,850
	65 or older (both spouses)	\$23,100
married filing separately	any age	\$ 4,000
head of household	under 65	\$13,250
	65 or older	\$14,800
qualifying widow(er) with dependent child	under 65	\$16,600
	65 or older	\$17,850



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Additional Information

Individual without SSN, ITIN, or Employer Identification Number (EIN) is unable to obtain a Verification of Nonfiling Letter from the IRS, so must submit:

- Signed/dated statement certifying the individual does not have a SSN, ITIN, or EIN, and listing the sources and amounts of earnings, other income, and resources received for the tax year
- If applicable, a W-2 or equivalent document for each source of employment income for tax year



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Additional Information

If living in another country and unable to provide a Verification of Nonfiling Letter, individual also must provide proof of that taxing authority's filing requirements, whether from taxing authority or from authority's website

- Can include a letter or email from taxing authority or screen capture from taxing authority's website



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Additional Information



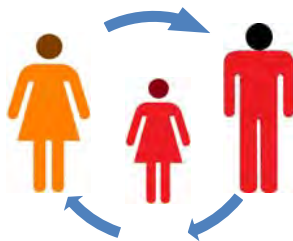
• If documentation of nonfiling from tax authority does not exist, or if unable to obtain it, individual may provide a signed and dated statement indicating:

- Taxing authority does not provide such documentation; or
- Individual was unable to obtain documentation after contacting taxing authority
- See Program Integrity Q&A DOC-Q30/A30



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Is Resolution Required If the Student Switches Parents Between Award Years and Has Comment Code 399?



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Answer

No, except...

- Legitimate reasons why a student could switch parents between award years (e.g., court ordered or informal custody agreements, family choices)
- Resolution required only if conflicting data
 - Don't assume conflicting information
- Verify whichever award year is selected based on parent on FAFSA for award year



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Answer (continued)

- Remember parent of record is:
 1. Parent student lived with most during past 12 months; and only then
 2. If student lived with both equally, the parent who provided more than half support
- If conflicting data exist, you must decide what is sufficient documentation
 - Could include third-party testimony
 - Custody agreements and court documents
- Comment Code 399 will not go away



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Scenario

The student's parents' income is under \$22,000, and they are eligible to file a 1040A or 1040EZ. Skip-logic on the FAFSA allows the student the option to skip the section on reporting their own income. The student's Institutional Student Information Record (ISIR) contains all blanks to the student income questions (e.g., taxes paid, untaxed income, etc.).



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Must a Student Verify Taxes Paid, Untaxed IRA and Pension Distributions, IRA Deductions/Payments, Tax Exempt Interest, and Education Tax Credits If His Parents' Income Qualifies for the Automatic-Zero EFC?



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Answer

No

- Only verify for dependent student:
 - Parents' AGI if tax filers
 - Parents' income from work if nontax filers
- Only verify for independent student:
 - Student's and spouse's AGI if tax filers
 - Student's and spouse's income from work if nontax filers
 - Household size to see if student has one or more dependents other than a spouse



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Answer (continued)

Auto-Zero EFC if dependent student's parents' income is \$25,000 or less and:

- Eligible to file 1040A or EZ, or not required to file tax return; **or**
- Anyone in household received federal means-tested benefits in 2015 or 2016; **or**
- Either parent is a dislocated worker



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Answer (continued)

Auto-Zero EFC if independent student and spouse's income is \$25,000 or less and:

- Student has a dependent other than the spouse; **and**
 - Eligible to file 1040A or EZ, or not required to file tax return; **or**
 - Anyone in household received federal means-tested benefits in 2015 or 2016; **or**
 - Either independent student or spouse is a dislocated worker



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Answer (continued)

If verification of these items reveals applicant should not have qualified for Auto-Zero EFC:

- Aid administrator must update ISIR
- Verify remaining income information per verification tracking group



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Do We Count Disability Income as
Untaxed Income?



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Answer

It depends...

- Do not include untaxed Social Security benefits, including untaxed Supplemental Security Income (SSI) and Social Security Disability Insurance (SSDI)
- Include taxable Social Security benefits (SSI/SSDI or otherwise)
 - Taxable Social Security already in AGI
- If no tax return is filed, it is untaxed/excluded



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Answer (continued)

- If part of Social Security benefits are taxable, individual must file 1040 or 1040A
 - See IRS Publication 915
 - Don't assume conflicting information
- Include as untaxed income all other disability benefits, such as:
 - Non-SSI state disability income
 - Department of Veterans Affairs (VA) disability
 - Other untaxed disability income



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Household Size
 &
 Number in College



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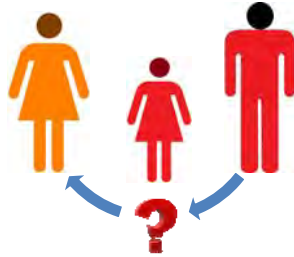
Scenario

The FAFSA was filed using only the father's information because the parents are divorced and the student lived with the father. The application is selected for verification. After the FAFSA was filed and before verification, the father dies. The student's other biological parent (mother) is willing to help with this situation, but she is not on the FAFSA.



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To Complete Verification, Should We Switch Parents If the Only Parent on the FAFSA Dies After the FAFSA is Filed?



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Answer

No

- 34 CFR 668.54(b) does not mention a verification exclusion due to the death of a parent; page AVG-80 of the 2017–18 *FSA Handbook* does
- Exclusion applies only to the parent or parents whose information is required on the FAFSA
 - If only one parent is on the FAFSA, only that parent needs to be deceased to be excluded from verification
 - If both parents are on the FAFSA, both parents need to be deceased to be excluded from verification
 - Student's data must still be verified



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Answer (continued)

- ED encourages school to complete verification for the parent listed on the FAFSA if anyone else has access to documentation or power of attorney
 - If so, cash support from other parent is untaxed income
- Do not switch parents until following award year
- Could use professional judgment (PJ) to include mother's income and assets on current year FAFSA, while father remains parent of record
- Guidance also applies to mentally incapacitated parent(s)



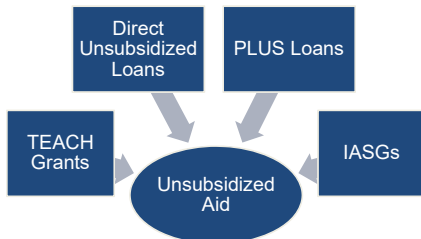
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High School Diploma
 &
 Identity/Statement of
 Educational Purpose



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Can Verification of High School Completion and Identity/Statement of Educational Purpose Be Waived for a Student Who Is Only Receiving Unsubsidized Aid?



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Answer

No

- If eligible for only unsubsidized Title IV aid, student **usually** satisfies the verification exclusion in 668.54(b)(1)(iii)
- High school completion and identity/Statement of Educational Purpose are student eligibility issues
- Must be verified if selected in V4 or V5 while still enrolled at the school



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Answer (continued)



- Represents a change in ED guidance
 - ED previously “strongly encouraged”
 - Changed 1/13/17 effective for both award years
- ED Program Integrity Q&A DOC-Q18/A18
- 10/31/16 Electronic Announcement, *Changes in Verification Tracking Groups*
 - Revised 3/3/17 to indicate verification required only if selected while still enrolled



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Answer (continued)

- If only eligible for unsubsidized aid and in verification tracking group V5:
 - Only required to verify high school and identity/Statement of Educational Purpose
 - Not required to verify income, household size, or number in college




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**Professional Judgment
(PJ)**



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Scenario

For the 2016–17 award year, a student who requested special consideration due to reduced income in calendar year 2016 compared to 2015. We exercised PJ and used 2016 projected-year income for 2016–17. Now that 2015 income information is being used again for 2017–18, the family is concerned that the student's aid will be based on the higher 2015 income again.



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**Can We Use 2016 or 2017 Income As
Projected-Year Income for 2017–18
Using Professional Judgment?**

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Answer

Yes

- Can use 2016 income again as basis of PJ
- If original 2016 projected-year amount has changed, you should use the updated amount
 - Does it still warrant an adjustment?
- Can use same documentation only if it fully supports the use of 2016 income again



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Answer (continued)

- Use of PJ does not change due to the use of prior-prior year (PPY) income
- Can use projected-year income for any 12-month period aid administrator decides more accurately reflects family's ability to pay
- Can use 2016 again, projected 2017 income, or other 12-month period
- Use of 2016 income must be PJ, not standard policy



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Answer (continued)

Considerations for use of 2016 income:

- Completed year income is more reliable?
- Change in income during 2016 or earlier was permanent (e.g., change in marital status)?
- Other circumstances for appeal are expected to continue into or affect 2017?
- Using projected 2016 income for 2017–18 and actual 2016 in following year may result in differences you may choose to reevaluate



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Answer (continued)

Considerations for use of 2017 income:

- Change in circumstances late 2016 or in 2017?
- Job loss or illness expected to continue into 2017?
- May take into account more recent circumstances than use of 2016 income
- May need to wait longer in award year to get good idea of projected-year income



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Answer (continued)

Considerations for use of other 12-month period:

- Using 12 months including academic year may reflect best actual ability to pay
- Some schools use a rolling 12 months after a major event which causes the PJ request
- Emphasizes the case-by-case nature of PJ
- May be more complex to administer due to collection of income documentation from two calendar years



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Answer (continued)

Considerations for no PJ:

- Reasonable adjustments would not change the aid package, or not change it significantly
- No resources to meet increased need for students
- Institutional policy is that particular change in circumstances does not warrant PJ (e.g., school defines triggers for PJ review based on philosophy, student body characteristics, and resources)
- Can be problematic if institutional restrictions on PJ present a barrier for needy students



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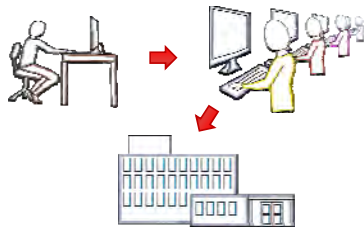


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Do We Have to Wait for the Verified Transaction to Come Back Before Exercising Professional Judgment?



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Answer

Yes

- Verification is required before PJ when student's FAFSA is selected by ED or school
- Not required if aid administrator adjusts **student's** marital status to address an inequity or to better reflect ability to pay
 - Change student's marital status and other relevant data and then verify updated application with spouse or parent information
 - Not considered PJ



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Comment Code 399



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Must We Resolve Comment Code 399 If We Used Professional Judgment in 2016–17?



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Answer

No

- Per GEN-16-14, 2017–18 application should not be flagged for resolution with Comment Code 399 if:
 - PJ was performed in either 2016–17 or 2017–18 award year; **and**
 - “Professional Judgment Flag” has been properly set to “1” on Institutional Student Information Record (ISIR)



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Answer (continued)

- Until 2/6/17, ED was incorrectly assigning Comment Code 399
- On 2/6/17, ED reprocessed affected records to correct the errors and not assign 399 going forward
 - No resolution required if still slipping through
- See 1/30/17 Electronic Announcement



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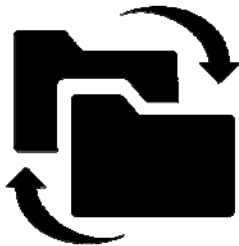
Scenario

A student is going from an undergraduate to a graduate student and does not have Comment Code 399 on her 2017–18 ISIR. However, the institution sees that the income on the 2017–18 ISIR does not match the 2016–17 ISIR.



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Must We Resolve Conflicting Income and Tax Data for 2016–17 and 2017–18 If There Is No Comment Code 399?



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Answer

No

- Not required to resolve or verify differences in income and tax data
- Verification of one year may trigger 399, which would then need to be resolved
 - May choose to transfer data at time of verification
- Conflicting information on other data elements must still be resolved
- Change of dependency status by itself does not constitute cross-year conflicting information



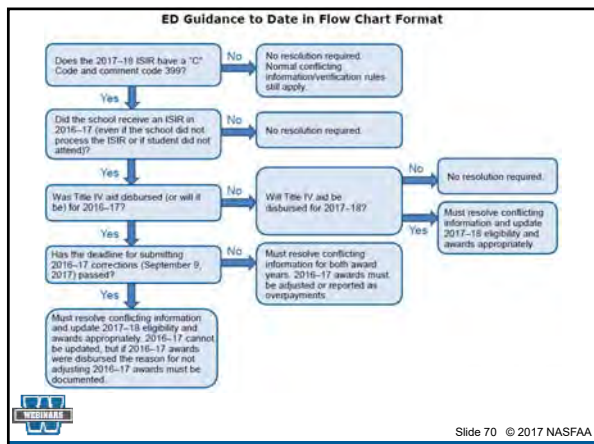
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Answer

No, but...

- Not prior-year data
 - 2016–17 FAFSA asks if means-tested benefits were received in 2014 or 2015
 - 2017–18 FAFSA asks if means-tested benefits were received in 2015 or 2016
- Legitimately different answers are possible (e.g., household member received benefits in 2014 but not in 2016)

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Answer (continued)

- Comment Code 399 is not assigned solely based on difference in needs-tested benefits
- Must be resolved if other conflicting data exist
- Must update ISIR if you discover that receipt of benefits would qualify applicant for Auto-Zero EFC or Simplified Needs Test (SNT)



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Scenario

We have a student who used the IRS DRT for both the parent and student for both the 2016–17 and 2017–18 FAFSAs. The latest 2016–17 ISIR transaction has an IRS Request Flag of “02.” The 2016–17 ISIR includes amounts in the Grant and Scholarship Aid and the Tax-Deferred Pensions fields; the 2017–18 ISIR does not.



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Which of the Following Prior-Prior Year (PPY) Data Elements Is Reviewed for Conflicting Information When Assigning Comment Code 399, and Therefore Must Be Resolved?

- Household size
- Number in college
- Exclusions from income
- Assets



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Which of the Following Prior-Prior Year (PPY) Data Elements Is Reviewed for Conflicting Information When Assigning Comment Code 399, and Therefore Must Be Resolved?

- a) Household size
- b) Number in college
- c) Exclusions from income
- d) Assets



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Answer

Only the following PPY data elements are compared for conflicting information during the assignment of Comment Code 399:

- Tax return status
- Type of tax return
- Tax filing status
- Eligible to file 1040A or EZ
- AGI
- Taxes paid
- Exemptions claimed
- Income earned from work (student/parent/spouse)
- Exclusions from income
- Untaxed income



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Answer (continued)

- Only required to review and resolve conflicting information for PPY data on previous slide
- See 3/18/16 Electronic Announcement, *Early FAFSA Electronic Announcement #4—Determining FAFSA Prior-Prior Items*



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Answer (continued)

- Following data elements are not reviewed as PPY data when assigning 399
 - Household size
 - Number in college
 - Assets
 - Receipt of federal means-tested benefits
 - Dislocated worker status
- Only required to review or resolve these if conflicting information exists



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Question and Answer Segment



Your questions,
please!



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Survey!

- Please complete the survey that appears on your screen
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2016 – 17 Course Schedule

- Overview of the Financial Aid Programs – 9/12/16
- Student Eligibility – 10/3/16
- Cash Management – 10/18/16
- Verification – 11/7/16
- Return of Title IV Funds – 1/30/17
- Consumer Information – 2/27/17
- Gainful Employment – 3/27/17
- Professional Judgment – 4/25/17
- Overview of the Financial Aid Programs – 7/10/17

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