

Because students sometimes make errors on their application, colleges have had procedures for verifying the reported information. The regulations include this verification as part of the FSA 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 also have the authority—and may be required—to verify additional students.

Verification concerns applicants for most FSA programs, but it isn't required if the student is only receiving PLUS or unsubsidized Stafford loans since these loans are not based on the EFC. However, a student can't avoid verification by choosing to borrow an unsubsidized loan instead of a subsidized loan. If he tries to do this, the school is to continue with verification.

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,
- a method of notifying students of award changes due to verification,
- required correction procedures for students, and
- standard procedures for referring overpayment cases to the Department.

Additionally, the school must give each applicant selected for verification a written statement explaining the following:

- **Documents required for verification**
- **Student responsibilities**—including correction procedures, the deadlines for completing any actions required, and the consequences of missing the deadlines.
- **Notification methods**—how your school will notify a student if her award changes as a result of verification, and the time frame for such notification.

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/Keogh deductions
 - ➔ Foreign income exclusion
 - ➔ Earned income credit
 - ➔ Interest on tax-free bonds

Verification regulations

34 CFR 668, Subpart E
Required policies—34 CFR 668.53

Online FSA Verification Module

<http://ifap.ed.gov/qamodule/FSAVeriModule/FSAVerificationModule/page1.html>

Quality Assurance Program

Under the Title IV Quality Assurance (QA) Program, participating schools develop and implement a quality improvement approach to FSA program administration and delivery. QA schools are exempt from certain administrative and procedural requirements, including some verification requirements, though they are not exempt from resolving conflicting information. The QA Program provides QA schools with an alternative management approach to develop verification that fits their population. Currently, QA schools use a software tool to analyze the effectiveness of their institutional verification program. The ISIR Analysis Tool shows which application elements changed when verified and reveals the impact that those changes have on the EFC. This tool is available to all schools. See Volume 2: School Eligibility and Operations for more information.

APPLICATIONS TO BE VERIFIED

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

The output document shows if an application was 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.” Also, next to the EFC will be an asterisk referring to a comment in the student section of page 1 that tells applicants they will be asked by their schools to provide copies of certain financial documents.

A school must verify any application information that it has reason to believe is incorrect [34 CFR 668.54(a)(3)] or for which it has conflicting information [668.16(f)]. Students with these applications are considered to be selected for verification by the school even though it may not be verifying the same data as for CPS-selected applications.

The school may also select additional applications for verification beyond those required, and in these cases the school decides which items to verify: it can forgo items that must be verified on CPS-selected applications and can select different items.

Regardless of whether the CPS or the school selected the application for verification, all other verification requirements, such as deadlines and allowable interim disbursement rules, apply equally to all students who are being verified.

If any school wants to learn more about its verification results, it can use the ISIR Analysis Tool, which provides a variety of reports and analyses using current Web technology. The reports it generates can help you determine what group of students discretionary verification or the CPS edits might be missing. They can also help you develop discretionary verification edits that focus on student changes that affect the EFC and Pell eligibility. See “Program Integrity” in the *School Eligibility and Operations* volume.

30% Verification option

34 CFR 668.54(a)(2)

30% Verification option

A school must verify all applications the CPS selects for verification up to 30% of the school’s total number of federal aid applicants. The school may choose to verify more than 30%, and if the CPS selects less than that, the school isn’t required to reach 30%; it is not a quota. Applications a school selects and those with conflicting information don’t count toward the 30% level.

Schools have the flexibility to define “applicant.” For example, it can be anyone who applies to the school (i.e., they need not be enrolled), anyone who is enrolled, or, even more narrowly, anyone enrolled who is also eligible to receive an aid award. Whatever definition your school uses, the students you count toward the 30% limit must meet that definition.

30% Verification Examples

Bennet College has 1,000 applicants for federal student aid. The CPS selected 475 of the applications for verification. Bennet also selects 100 other applications based on its own criteria. To meet the 30% level, Bennet needs to verify 300 applications from the 475 the CPS selected; the 100 Bennet selected don't count toward the 30% requirement.

Brust Conservatory has 1,000 applicants for federal student aid, and the CPS selected 289 of the applications for verification. Brust must verify all 289 applications because that number isn't more than 30% of the total applicants.

Benoit Institute has 1,000 applicants for federal student aid, of which the CPS selected 300 for verification. Also, the school identified 40 additional applications as having conflicting information that Benoit must resolve. 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.

The verification tracking flag on the ISIR uses a four-digit number to prioritize applicants—the higher the number, the greater the potential for significant error. If you use the 30% option, this field will help you choose applicants for verification who have potentially made the most significant errors on their FAFSA.

Selection after disbursement

A student's application might be selected for verification after corrections are submitted and after the student has already been paid based on the previous unselected CPS transaction. (There is a new change flag on the ISIR to call attention to this situation.) You must verify his application before making further disbursements. If the student does not complete verification or if verification does not justify the aid already disbursed, he is responsible for repaying all aid for which he is not eligible.

Verification exclusions

A selected application may be exempt from some or all of the verification requirements due to unusual circumstances. Except in the case of the student's death, however, none of these exemptions excuse 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 2005 or 2006.

→ ***Spouse unavailable.*** A school isn't required to verify spousal 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.

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 deadline, Guerrero can give him the aid for which he is eligible in the spring.

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 FSA regulations.

Verification exclusions

34 CFR 668.54(b)

Immigrant example

Hector arrives in the United States in February 2005, and begins attending Guerrero University in September 2005. His 2005-2006 application is selected for verification. Guerrero determines that it doesn't have to verify Hector's application because he arrived during the 2005 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.

- 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 the 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 5.)
- 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 verification and the student dies before it is completed, you don't have to continue verification to justify the first disbursement. You can't make any additional disbursements, except for FWS funds already earned, to any of the student's beneficiaries. You cannot originate a Direct loan, certify a FFEL, or deliver proceeds from either one for the student's beneficiaries. For more information see Chapter 2 of Volume 5.

→ **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. However, 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 89).

→ ***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 meet the same criteria. 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 FSA funds for reasons other than the student's failure to complete verification. This category includes students ineligible for aid from the FSA programs and those who withdraw without receiving aid.

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 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. You may decide which students must provide documentation for any additional data elements and what constitutes acceptable documentation.

General documentation requirements and 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 2005-2006 verification worksheets developed by the Department. You may reproduce as many as you need, and master copies are also available through EDEXpress and the IFAP website at www.ifap.ed.gov. When a student completes a verification worksheet and attaches the appropriate tax forms or alternative documents, you will usually have enough information to complete verification.

Required verification items

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.

HEROES Act modifications

The Higher Education Relief Opportunities for Students (HEROES) Act provided for the modification and waiving of some statutory and regulatory provisions related to students who receive financial aid and who are on active duty during a war or other military operation or who reside or are employed in a declared disaster area. These adjustments apply to return of funds and signature requirements for verification and application, among other things. The waivers and modifications expire on September 30, 2005. For a complete description of them and a complete list of the eligible students, see pp. 69312–69318 of the Federal Register dated December 12, 2003.

Household size documentation and exceptions

Student assistance general provisions
34 CFR 668.57(b)
34 CFR 668.56(a)(3), (b), (c)

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 the next page shows other forms of acceptable documentation for each required verification item.

If you require students to complete verification worksheets, you must provide the appropriate (dependent or independent) worksheets to the selected students. You should remind your students that they must submit the completed worksheet and copies of the relevant income tax returns or alternative documents to your 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 (such as photocopies, faxes, digital images) of worksheets, tax returns, or other documents are acceptable. Unless specifically noted in this chapter, a signature on a copy is as valid as an original signature (i.e., a handwritten or "wet" signature). 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," p.88.)

Household size

The law states who counts in the household size; see steps 4 and 5 in chapter 2. If the student completed the Department's verification worksheet, no further documentation for this item is required. Instead of the worksheet, you may accept a statement signed by the student (and, for dependent students, at least one of the parents) listing the names of the household members, their ages, and their relationship to the student.

You don't have to verify household size if any of the following 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.
- 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 the Department's verification worksheet, no further documentation for this item is required. Instead of the

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 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>		Signed statement or official agency documentation

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 have reason to doubt the enrollment information reported, you should require the student to obtain documentation from the other students and schools listed. (If other students in the family haven't enrolled yet, documentation from the other schools 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 U.S. 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—electronic, over the telephone (through TeleFile), or traditional paper. All documentation must contain the required signatures (or preparer's stamp or other official validation) and must contain all data

Number in college—documentation and exceptions

Student assistance general provisions
34 CFR 668.57(c)
34 CFR 668.56(a)(4), (b), (d)

Tax documents: special situations and alternatives

There are certain situations, such as when the student filed 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 two electronic filing methods. The taxfiler can go to an e-file provider who will send the return to the IRS, or he can use taxfiling software on a home computer for submission to the IRS. The filer should always receive a paper copy of the return in some format. Software used on a home computer may allow the taxfiler to print out a standard 1040, 1040A, or 1040EZ form that contains the information that was filed electronically. 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 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.)

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 no taxable interest income was reported.

TeleFile

TeleFile 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.)

Non-filers

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 W-2 forms *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 federal 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 were required on the FAFSA submits a signed statement claiming non-filer status and you have 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 on conflicting information, see chapter 5.) 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. **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 returns should have been filed and must 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 may 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 FSA 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 on p. 88).

Fiscal year tax returns

For a fiscal year return, as opposed to one for the calendar year, the student should report the AGI and U.S. income tax paid from the 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 a copy of the tax return is not available, the student must instead submit a copy of any IRS form that lists tax information and provides the information needed for verification. The form **must** be signed by the student unless the IRS sent the form directly to the school.

A common form is the tax transcript. A student can order one by calling the IRS at 1-800-829-1040 and following the directions below or by completing and mailing Form 4506, *Request for Copy or Transcript of Tax Form*. If the transcript does not have as much financial information as the tax return, the student may have to provide additional documents to complete verification.

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. 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.

Obtaining a tax transcript or a copy of a return

A person may no longer request a transcript or a copy of a return in an IRS field office. Instead, if a person wants a copy of a return, she must complete and mail a Form 4506; if she wants a transcript, she can either submit a Form 4506 or she can call 1-800-829-1040 and use the automated system to request one. The steps in the automated system are generally: choose the option for “personal tax account,” enter the SSN or EIN, choose “transcripts,” enter the numbers of one’s street address, and enter the year of the return requested.

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

**AGI and income
tax documentation**

34 CFR 668.57(a)

necessary for verification. If all necessary data are not present, the student must provide additional documentation, as described in this section.

FAFSA tax return questions

For students the tax return questions are 32-34 on the FAFSA. For parents the tax return questions are 70-72.

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 were reported on the FAFSA: the student and his spouse or parents, if applicable. They reported on the FAFSA either the tax return they filed or that they were not required to file a 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," p. 86). 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 accept a paper return on which the tax preparer has stamped, typed, signed, or printed her name (not the name of her company) and her SSN, EIN (Employer Identification Number), or PTIN (Preparer Tax Identification Number). You may also accept a copy of an IRS form with tax account information that the IRS mailed directly to your school (otherwise at least one of the filers must sign the form). 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 "Verification exclusions," p. 77).

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 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.

Line Items

	<i>1040</i>	<i>1040A</i>	<i>1040EZ</i>
<i>AGI</i>	36	21	4
<i>Income Tax Paid</i>	56	36	10
<i>Deductible IRA/SEP</i>	25 plus 32	17	
<i>Earned Income Credit</i>	65a	41a	8a
<i>Tax-Exempt Interest Income</i>	8b	8b	
<i>Untaxed Portions of IRAs and Pensions (excludes rollovers)</i>	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 W-2 forms. (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.)

Add the income amounts from the individual's W-2 forms to any other income that can be 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 2004 and have since separated. The AGI on Eddy's FAFSA matches the AGI of \$38,000 on the 2004 tax return, which means it's wrong because it includes his wife's income.

Eddy's W-2 shows that his income for 2004 was \$14,900, and the tax return shows \$200 in interest. Because it was interest on a joint savings account, the aid administrator adds \$100 of it to Eddy's income and submits \$15,000 as the corrected income via FAA Access.

Example 2: Calculating individual taxes paid from a joint return

The aid administrator determines that Eddy's part of the \$38,000 AGI he and his wife reported is \$15,000. 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 2005. Eddy's nephew still lives with him. Therefore, Eddy would have had two exemptions (himself and his nephew), totaling \$6,100. In the new situation, Eddy's filing status is "head of household" instead of "married." Therefore, his standard deduction is \$7,000 (instead of the \$9,500 for married filers). Eddy's income of \$15,000 minus the \$6,100 for exemptions and the \$7,000 standard deduction results in \$1,900 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 \$1,900, the amount of tax paid from the tax schedule would be \$191.

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% (15,000 divided by 38,000 is .3947). The aid administrator then multiplies the income tax paid as reported on the tax return (\$1,323 for this example) by this percentage. Therefore, Eddy's income tax paid would be \$516 (.39 x \$1,323).

✓ **Verifying untaxed Social Security benefits**

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

- 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.

✓ **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.

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 25 and 32 of IRS Form 1040 or line 17 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 this consists of both the income exclusion and the housing exclusion.

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 you chose to collect a Social Security statement and it shows an amount deducted for Medicare, make sure that amount is included in the total benefits reported.

34 CFR 668.57(d)(2)

Child support documentation

34 CFR 668.57(d)(3)

Untaxed income and benefits documentation

34 CFR 668.57(d)

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

The EIC must be reported on the FAFSA and verified, which can be done using line 65a of the 1040, line 41a of the 1040A, or line 8a of the 1040EZ.

Disbursing unsubsidized loans without verification

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

Interim disbursements

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 is 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 documents yet. Though the school can make an interim disbursement before Steven turns in all his verification paperwork, the aid office doesn't want to pay him until it receives his corrected output document. Brust will wait until Steven completes verification before making any disbursements.

COMPLETING THE PROCESS

Unless receiving only an unsubsidized or PLUS loan, a student selected for verification must complete it, and you have the authority to withhold disbursement of any FSA funds until she does. Adopting this policy substantially reduces the incidence of overpayments. You can, however, make an interim disbursement before verification is complete.

Interim disbursements

You can make an interim disbursement before verification is complete **if you have no reason to believe the application information is inaccurate**. The limitations for each program are given below. Your school is liable for an interim disbursement if verification shows the student received an overpayment or if he 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" verification status code. See "Verification status codes" later in this chapter.
- **Federal Work-Study.** You can employ a student under FWS for up to 60 *consecutive* days after he enrolls (or in summer employment for up to 60 days). 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: Campus-Based Programs*.)
- **Stafford Loans.** You can certify a FFEL Stafford loan application or originate a Direct Stafford loan for a student who hasn't completed verification, but you can't disburse the loan. See *Volume 4: Processing Aid and Managing FSA Funds* for how to handle loan disbursements and for limits on how long your school can hold loan money before disbursing it or returning it to the lender.

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 and disburse aid for which the student is eligible.

If verification reveals errors or inconsistencies, the student may have to make corrections or update information (see Chapter 5).

Verification tolerance

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

This tolerance is \$400: if the total difference between the incorrect and correct values for certain items is more than \$400, the information must be corrected. To calculate the difference, first add the original (incorrect) AGI and untaxed income amounts. From that sum subtract the original U.S. income tax paid to get the uncorrected total. Do the same for the correct values: add the correct AGI and untaxed income and subtract 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, the errors are within tolerance; you may award the student aid without submitting a correction or recalculating the EFC. Using the tolerance is optional—you can always have the student submit corrections for reprocessing.

Note that there is no tolerance for errors in nondollar items. If the original application has an error in any nondollar item, such as household size, the student or school must correct it.

Late disbursements and failure to submit documentation

Generally a student ceases to be eligible for aid once he has finished the term and is no longer enrolled. However, he may submit verification documentation and receive a late disbursement after that time if the Department processed a SAR or ISIR with an official EFC while he was still enrolled. Also, if there was a change in his EFC due to verification completed after he was enrolled, any Pell grant awarded would be based on the higher EFC. For information regarding *post-withdrawal* disbursements, see Volume 5 of the Handbook.

A Pell applicant selected for verification must complete the process within deadlines published in the *Federal Register*. As of this writing, the notice for 2005-2006 has not been published, but the deadlines for FSA programs, including Pell, are expected to be September 23, 2006 or 120 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 shown that the information is correct. In addition to all verifying documentation, your school must also have on file his valid ISIR or SAR by the verification deadline—if not, the student forfeits Pell for the award year, and your school must repay funds already disbursed.

Campus-Based and Stafford loan applicants must complete verification by the final deadline for all FSA programs published in the *Federal Register* or by any earlier deadline established by your aid

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 5).

Tolerance example

Emma originally reported on her FAFSA an AGI of \$2,500, \$500 in untaxed income, and \$250 U.S. income tax paid. Verification shows that her AGI was actually \$2,800, and she paid \$281 in U.S. income tax.

Original: \$2,500 (AGI) + \$500 (untaxed income) - \$250 (taxes paid) = \$2,750

Corrected: \$2,800 (AGI) + \$500 (untaxed income) - \$281 (taxes paid) = \$3,019

Net Difference: \$269 (\$3,019-\$2,750)

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

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

Late disbursements

34 CFR 668.164(g)

office. The student has completed verification when he has submitted all requested documentation to the school. You must also have on file an output document with an official EFC that shows the student's application data were processed through the CPS at least once while the student was enrolled.

For the Campus-Based and Stafford loan programs, if a student fails to provide the required documentation by the deadline, do 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 FFEL Stafford loan application or originate a Direct Stafford loan for the student, or
- disburse Stafford Loan funds to the student.

Verification status codes

When you disburse a Pell grant, you must report through Common Origination and Disbursement (COD) the student's verification status even if he wasn't selected for verification.

V - You have verified the student. This includes students selected by the CPS and those your school chose to verify based on its own criteria.

W - The student was selected for verification by the CPS, and your school has chosen to pay a first disbursement of Pell without documentation. Note that this code must be updated.

S - The CPS selected the student for verification, but you did not verify him because you already reached the 30% verification threshold or because your school participates in the Quality Assurance Program and the student's application did not meet your school's verification criteria.

Blank - Report a blank if you have not performed verification because neither the CPS nor your school selected the student.



2005-2006 Verification Worksheet

Federal Student Aid Programs

Dependent

FORM APPROVED
OMB NO. 1845-0041

Your application was selected for review in a process called "Verification." In this process, your school will be comparing information from your application with signed copies of your and your parent(s)' 2004 Federal tax forms, or with W-2 forms or other financial documents. The law says we have the right to ask you for this information before awarding Federal aid. If there are differences between your application information and your financial documents, you or your school may need to make corrections electronically or by using your Student Aid Report (SAR).

Complete this verification form and submit it to your financial aid administrator as soon as possible, so that your financial aid won't be delayed. Your financial aid administrator will help you.

What you should do

1. Collect your and your parent(s)' financial documents (signed Federal income tax forms, W-2 forms, etc.).
 2. Talk to your financial aid administrator if you have questions about completing this worksheet.
 3. Fill in and sign the worksheet—you and at least one parent.
 4. Submit the completed worksheet, tax forms, and any other documents your school needs to your financial aid administrator.
 5. Your financial aid administrator will compare information on this worksheet and any supporting documents with the information you submitted on your application. You may need to make corrections electronically or by using your SAR.
- Your school must review the requested information, under the financial aid program rules (34 CFR, Part 668).*

A. Student Information

_____ Last name	_____ First name	_____ M.I.	_____ Social Security Number
_____ Address (include apt. no.)			_____ Date of birth
_____ City	_____ State	_____ ZIP code	_____ Phone number (include area code)

B. Family Information

List the people in your parents' household, include:

- yourself and your parent(s) (including stepparent) even if you don't live with your parents, and
- your parents' other children, even if they don't live with your parent(s), if (a) your parents will provide more than half of their support from July 1, 2005 through June 30, 2006, or (b) the children would be required to provide parental information when applying for Federal Student Aid, and
- other people if they now live with your parents, and your parents provide more than half of their support and will continue to provide more than half of their support from July 1, 2005 through June 30, 2006.

Write the names of all household members in the space(s) below. Also write in the name of the college for any household member, excluding your parent(s), who will be attending college at least half-time between July 1, 2005 and June 30, 2006, and will be enrolled in a degree, diploma, or certificate program. If you need more space, attach a separate page.

Full Name	Age	Relationship	College
Missy Jones(example)	18	Sister	Central University
		Self	

C. Student's Tax Forms and Income Information (all applicants)**Dependent**

1. Check only one box below. Tax returns include the 2004 IRS Form 1040, 1040A, 1040EZ, TeleFile Tax Record, a tax return from Puerto Rico or a foreign income tax return. If you did not keep a copy of your tax return, request a copy from your tax preparer or a copy of an Internal Revenue Service form that lists tax account information.

- Check and attach signed tax return.
- Check and complete: signed tax return will be submitted to the school by _____ (date).
- Check here if you will not file and are not required to file a 2004 U.S. Income Tax Return.

2. Funds received for child support and other untaxed income. (See worksheets A&B of the Free Application for Federal Student Aid)

Sources of Untaxed Income	2004 Amount	Sources of Untaxed Income	2004 Amount
a. Child Support	\$	d.	\$
b. Social Security (non-taxed)	\$	e.	\$
c. Welfare (including TANF)	\$	f.	\$

3. If you did not file and are not required to file a 2004 Federal income tax return, list below your employer(s) and any income received in 2004 (use the W-2 form or other earnings statements if available).

Sources	2004 Amount
	\$
	\$
	\$

D. Parent(s)' Tax Forms and Income Information

1. Check only one box below. Tax returns include the 2004 IRS Form 1040, 1040A, 1040EZ, TeleFile Tax Record, a tax return from Puerto Rico or a foreign income tax return. If your parent(s) did not keep a copy of their tax return, request a copy from the tax preparer or a copy of an Internal Revenue Service form that lists tax account information.

- Check and attach signed tax return(s).
- Check and complete: signed tax return(s) will be submitted to the school by _____ (date).
- Check here if your parent(s) will not file and are not required to file a 2004 U.S. Income Tax Return.

2. Funds received for child support and other untaxed income. (See worksheets A & B of the Free Application for Federal Student Aid)

Sources of Untaxed Income	2004 Amount	Sources of Untaxed Income	2004 Amount
a. Child Support	\$	d.	\$
b. Social Security (non-taxed)	\$	e.	\$
c. Welfare (including TANF)	\$	f.	\$

3. If your parent(s) did not file and are not required to file a 2004 Federal income tax return, list below your parent(s)' employer(s) and any income they received in 2004 (use the W-2 form or other earnings statements if available).

Sources	2004 Amount
	\$
	\$
	\$

E. Sign this Worksheet

By signing this worksheet, we certify that all the information reported on it is complete and correct. At least one parent must sign.

WARNING: If you purposely give false or misleading information on this worksheet, you may be fined, be sentenced to jail, or both.

Student Date

Parent Date

Do not mail this worksheet to the Department of Education. Submit this worksheet to your Financial Aid Administrator at your school. Make sure that tax forms are signed.



2005-2006 Verification Worksheet

Federal Student Aid Programs

FORM APPROVED
OMB NO. 1845-0041

Your application was selected for review in a process called "Verification." In this process, your school will be comparing information from your application with signed copies of your (and your spouse's, if you are married) 2004 Federal tax forms, or with W-2 forms or other financial documents. The law says we have the right to ask you for this information before awarding Federal aid. If there are differences between your application information and your financial documents, you or your school may need to make corrections electronically or by using your Student Aid Report (SAR).

Complete this verification form and submit it to your financial aid administrator as soon as possible, so that your financial aid won't be delayed. Your financial aid administrator will help you.

What you should do

1. Collect your (and your spouse's) financial documents (signed Federal income tax forms, W-2 forms, etc.).
2. Talk to your financial aid administrator if you have questions about completing this worksheet.
3. Fill in and sign the worksheet.
4. Submit the completed worksheet, tax forms, and any other documents your school needs to your financial aid administrator.
5. Your financial aid administrator will compare information on this worksheet and any supporting documents with the information you submitted on your application. You may need to make corrections electronically or by using your SAR. *Your school must review the requested information, under the financial aid program rules (34 CFR, Part 668).*

A. Student Information

Last name First name M.I.

Social Security Number

Address (include apt. no.)

Date of birth

City State ZIP code

Phone number (include area code)

B. Family Information

List the people in your household, include:

- yourself, and your spouse if you have one, and
- your children, if you will provide more than half of their support from July 1, 2005 through June 30, 2006, and
- other people if they now live with you, and you provide more than half of their support and will continue to provide more than half of their support from July 1, 2005 through June 30, 2006.

Write the names of all household members in the space(s) below. Also write in the name of the college for any household member, excluding your parent(s), who will be attending college at least half-time between July 1, 2005 and June 30, 2006, and will be enrolled in a degree, diploma, or certificate program. If you need more space, attach a separate page.

Full Name	Age	Relationship	College
Martha Jones (example)	24	Wife	City University
		Self	

C. Student's Tax Forms and Income Information (all applicants)**Independent**

1. Check only one of the boxes below. Tax returns include the 2004 IRS Form 1040, 1040A, 1040EZ, TeleFile Tax Record, a tax return from Puerto Rico or a foreign income tax return. If you did not keep a copy of your tax return, request a copy from your tax preparer or a copy of an Internal Revenue Service form that lists tax account information.

- Check and attach signed tax return.
- Check and complete: signed tax return will be submitted to the school by _____ (date).
- Check if you will not file and are not required to file a 2004 U.S. Income Tax Return.

2. Funds received for child support and other untaxed income. (See Worksheets A & B of the Free Application for Federal Student Aid)

Sources of Untaxed Income	2004 Amount	Sources of Untaxed Income	2004 Amount
a. Child Support	\$	d.	\$
b. Social Security (non-taxed)	\$	e.	\$
c. Welfare (including TANF)	\$	f.	\$

3. If you did not file and are not required to file a 2004 Federal income tax return, list below your employer(s) and any income received in 2004 (use the W-2 form or other earnings statements if available).

Sources	2004 Amount
	\$
	\$
	\$

D. Spouse's Tax Forms and Income Information (if student is married)

1. Check only one box below. Tax returns include the 2004 IRS Form 1040, 1040A, 1040EZ, TeleFile Tax Record, a tax return from Puerto Rico or a foreign income tax return. If your spouse did not keep a copy of the tax return, request a copy from the tax preparer or a copy of an Internal Revenue Service form that lists tax account information.

- Check if you and your spouse did or will file a joint return.
- Check and attach spouse's signed tax return if your spouse filed a separate return.
- Check and complete: signed spouse's tax return will be submitted to the school by _____ (date).
- Check if your spouse will not file and is not required to file a 2004 U.S. Income Tax Return.

2. Funds received for child support and other untaxed income. (See Worksheets A & B of the Free Application for Federal Student Aid)

Sources of Untaxed Income	2004 Amount	Sources of Untaxed Income	2004 Amount
a. Child Support	\$	d.	\$
b. Social Security (non-taxed)	\$	e.	\$
c. Welfare (including TANF)	\$	f.	\$

3. If your spouse did not file and is not required to file a 2004 Federal income tax return, list below your spouse's employer(s) and any income received in 2004 (use the W-2 form or other earnings statements if available).

Sources	2004 Amount
	\$
	\$
	\$

E. Sign this Worksheet

By signing this worksheet, I (we) certify that all the information reported on it is complete and correct. If married, spouse's signature is optional.

WARNING: If you purposely give false or misleading information on this worksheet, you may be fined, be sentenced to jail, or both.

Student Date

Spouse Date

Do not mail this worksheet to the Department of Education. Submit this worksheet to your Financial Aid Administrator at your school. Don't forget to sign your tax forms.