



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF POSTSECONDARY EDUCATION

THE ASSISTANT SECRETARY

FEB 28 2011

DCL ID: GEN-11-04

Subject: Update on the Use of "Professional Judgment" and Reminder of Combat Pay Exclusion

Summary: This letter reminds financial aid administrators of their ability to exercise documented professional judgment when determining eligibility of students for federal student aid. It encourages aid administrators to consider the special circumstances that may arise for members of the U.S. Armed Forces and their families, and reminds them about FAFSA reporting and the treatment of combat pay in the calculation of a student's expected family contribution.

Dear Colleague:

I am writing to remind you of the authority financial aid administrators have under Section 479A of the Higher Education Act to make case-by-case adjustments based on adequate documentation to address circumstances not reflected in a student's original Free Application for Federal Student Aid (FAFSA). The thoughtful use of professional judgment in determining eligibility for Title IV aid to address a change in a student's financial or family circumstances from the base year information originally reported on the student's FAFSA may be critical to a student's ability to enter or continue in postsecondary education. When making such adjustments to student or family income, it is appropriate to take into account a changed circumstance that affects the student's or family's current and near-term economic situation. The Department considers the loss of income due to either the Reservist or National Guard member's return to college, or the deployment of a member of the Reserves or the National Guard as examples of changed circumstances. Other members of the U.S. Armed Forces may also encounter circumstances that warrant professional judgment consideration.

While we encourage the exercise of professional judgment where appropriate, you are reminded that the statute limits the scope of these determinations. Professional judgment must only be used to address special circumstances. Special circumstances are conditions that apply to an individual student, not a class of students. Financial aid administrators may not establish categories of special circumstances that apply automatically to a category of students in that circumstance. Financial aid administrators may, however, identify a category of students (for example, all students whose income or whose family's income was affected by a recent deployment) and then assess and document how each individual student situation was affected, making sure not to assume that every student in that category was affected in the same way. Financial aid administrators should always seek to obtain and maintain verifiable third-party documentation of the changed circumstances in order to support their decision to use professional judgment.

Further guidance on the use of professional judgment can be found on pages 104-106 of the Application and Verification Guide of the Department's *2010-2011 Federal Student Aid Handbook*. In addition, we previously posted Dear Colleague Letters in April 2009 ([GEN-09-04](#)) and in May 2009 ([GEN-09-05](#)) that provided information to financial aid administrators regarding their ability to exercise adequately documented professional judgment when determining the eligibility of students for federal student aid.

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Because GEN-09-04 and GEN-09-05 specifically referred to the 2008-2009 and 2009-2010 award years, we have received a number of questions concerning the applicability of this guidance for the 2010-2011 award year. The information provided in the two referenced Dear Colleague Letters continues to be in effect for the 2010-2011 award year and subsequent award years until further notice.

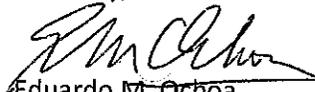
Finally, you are reminded that a person who is or was a member of the U.S. Armed Forces, and who serves or served in a combat zone, may exclude certain pay from income for federal income tax purposes. The details of this combat zone or imminent danger/hostile fire pay exclusion are explained in IRS Publication 3. The IRS publication describes a variety of special pay categories such as active duty pay earned for service in a combat zone and imminent danger/hostile fire pay. The Department refers to all of these types of special pay generically as combat pay. For more information on the combat zone or imminent danger/hostile fire pay exclusion, see the IRS *Armed Forces' Tax Guide* at: <http://www.irs.gov/pub/irs-pdf/p3.pdf> and Q and A 17 in Dear Colleague Letter GEN-05-16 at: <http://ifap.ed.gov/dpclletters/GEN0516.html>

For purposes of reporting combat pay on the FAFSA, taxable combat pay is collected as part of Adjusted Gross Income (AGI). Taxable combat pay is also reported as excludable income as part of the FAFSA (question 44e or 92e of the 2010-2011 FAFSA, and question 43e or 91e of the 2011-2012 FAFSA), as appropriate. Students and families are instructed not to report untaxed combat pay.

If you have questions regarding the information provided in this letter, please contact Marty Guthrie by phone at (202) 219-7031, or by e-mail at Marty.Guthrie@ed.gov

We appreciate your cooperation and help in assisting members of the U.S. Armed Forces, Reserves, and National Guard and their families to enter and continue in postsecondary education, as well as your consideration of the special circumstances of students and families during these challenging economic times.

Sincerely,



Eduardo M. Ochoa

Assistant Secretary for
Postsecondary Education