



Pennsylvania Association of Financial Aid Administrators

Verification- Difficult Situations

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Agenda

- Amended Returns
- Separating Income
- Foreign Returns
- Q and A

Amended Returns- Who has to file one?

Tax filers who reported incorrect information on their tax return must file an amended tax return.

Common errors:

- Exemption Errors
- Filing Status
- Incorrect Wages

Exemption Errors

As per IRS Publication 17:

- ***A Dependent is not allowed a personal exemption. If you can claim an exemption for your dependent, the dependent can't claim his or her own personal exemption on his or her own tax return.***

◦ Publication 17, Your Federal Income Tax. (2016.). Retrieved March 03, 2017, from <https://www.irs.gov/uac/about-publication-17>

What would you do?

Milo is selected for federal verification for the 2016-2017 school year. The financial aid office receives tax return transcripts for both mom and student and upon review, they both claimed Milo as an exemption. We advised Milo of this and he stated that it is an error by the IRS and he did not claim himself. The tax transcript says otherwise. How would you handle this situation? Would you require Milo to file an amended tax return?

What would you do?- cont.

Milo submitted a copy of his 1040ez and mom's 1040 signed by their accountant stating that these were the returns that were filed to the IRS...
How would you proceed now?

Married, Separated, Divorced, I don't know....

Tax filers who reported incorrect information on their tax return

- Filing Status:
 - ☐ Married and filed single or head of household
 - ☐ Single and filed married with fiancé or boyfriend/girlfriend
 - ☐ Common law marriage and filing status
 - ☐ Student filed head of household with no dependents

What would you do?

Jessica's mother, Nancy, got remarried in 2014. Nancy uses the Data Retrieval Tool to directly import her tax information into Jessica's 2016-2017 FAFSA. Upon review, you notice that Nancy's filing status is Head of Household. What would you do?

What would you do? – cont.

Answer: Since Nancy was married during the entire 2015 tax year, she is required to file only 1 of 2 ways – Married Filing Joint or Married Filing Separate. Even though Nancy used the DRT, she will need to amend her tax return and submit a 2015 Tax Return Transcript for both her and her husband as well as a signed copy of her amended return (1040x).

If her husband also filed incorrectly (i.e. single, HOH), then he would also need to amend his return and provide a signed copy of his amended return to the Financial Aid Office.

What would you do?

Kyle's parents, Ron and Debbie, have been married since August of 1992. Ron's filing status is Head of Household and Debbie's filing status is Married Filing Separate. What would you do?

After questioning the filing status, you learn that Ron and Debbie separated from June 22, 2015 through January 10, 2016. At that time, Ron and Debbie resided in separate households and Kyle chose to live with his dad. Ron also claimed Kyle as an exemption on his return. What would you do?

What would you do? – cont.

Answer: Per IRS Publication 504, Ron and Debbie are considered unmarried and Ron is indeed allowed to file Head of Household for the following reasons:

- Ron and Debbie filed separate returns.
- Ron paid more than half the cost to keep up his home.
- He and Debbie did reside in separate households for the last 6 months of the year.
- Ron's house was Kyle's main home.
- Kyle was able to be claimed as an exemption on Ron's return.

Publication 504, Divorced or Separated Individuals. (2016.). Retrieved March 08, 2017, from <https://www.irs.gov/pub/irs-pdf/p504.pdf>

W-2s – Yes or No?

Schools are not required to collect W-2s from those who filed a Federal Tax Return. You do, however, need to collect W-2s from those who did not file a Federal Tax Return and had earned income.

Benefits of Collecting W-2s

- Can correct incorrect earned income when you have a joint return.
- Can identify those who have not properly claimed Tax Deferred Pension.

Who collects W-2s and experiences that these fields have a very high error rate?

What would you do?

Kristin is selected for federal verification for the 2016-17 year. She submits a copy of her Tax Return Transcript and both her and her husband's 2015 W-2s. Their wages reported on the Tax Return Transcript are \$46,522. Box 1 from Kristin's W-2 is \$15,812 and box 1 from her husband's W-2 is \$29,381. Added together this equals \$45,193. What would you do?

What would you do? – cont.

What if there were no other W-2s? Would you require them to file an amended return?

What if their reported wages on their Tax Return Transcript were \$45,093 and box 1 from their W-2s added up to \$45,193? What would you do?

Required Documentation

When someone does indeed need to amend their Federal Tax Return, the only documents they are required to provide to your office are:

- A Tax Return Transcript
- A signed copy of their Amended Return (1040x)

You are not required to collect an Account Transcript.

Separation Verifications

As per the AVG Guide Chapter 4, Page 85- we are permitted to separate income if the filer of a joint return has become widowed, divorced or separated since filing their tax return.

Do you request proof of separation in order to process a separation of income?

Documents Needed to Separate Income

Documents needed:

- W-2's, Schedule C, Schedule E, 1099's Etc.
- Tax Return transcript
- If any other income is reported on the return such as: Pensions and Annuities, Unemployment, Education Expenses, Alimony, Social Security Benefits, etc., a signed statement attesting to who the income referenced on the return belongs to is sufficient. They are also welcome to submit the proper documentation if they have it on hand.

Processing the Verification

How to calculate taxes paid:

- **Tax Tables-** 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 taxes paid by that same percentage.

What tax method do you use in processing separation verifications?

What would you do?

Suzie and Derek filed their 2015 taxes together but are now separated. Suzie submitted her tax return transcript, W-2's, and Independent verification worksheet. Upon review of the tax transcript it was determined that their were moving expenses, pensions and annuities and an IRA deduction. What documentation would you request to find out if this information should be included in Suzie's adjusted gross income?

What would you do?

As per the AVG guide, a signed statement from the tax filer certifying that the data from the joint return is accurately accessed is sufficient documentation.

- FSA Handbook Chapter 4, Page 85

What would you do?

Kellie and Derek are separated but filed their taxes jointly. The tax return shows an IRA distribution, educational expenses and moving expenses. Kellie states that the IRA distribution is Derek's. She also states that they are both teachers but she bought more school stuff so the educational expenses should be listed under her only? What would you do?

What would you do?

Per the AVG Guide, if they both are teachers the educational expenses should be split 50-50.

If Kellie gets upset with this reply, what would you do? Would you have her prove the expenses were all hers?

Victims of Identity Theft

Some filers will fall victim to identity theft and not be able to use the DRT (Data Retrieval Tool) or get a Tax Return Transcript. When this happens, they will need to provide the following information instead:

- Tax Return DataBase View (TRDBV) Transcript
- A signed and dated statement stating they were victims of tax-related identity theft and that the IRS has been made aware of it.

Filing Extensions

Some families request filing extensions on their federal taxes. You do not need to hold up verification until they have filed their taxes. There is alternative documentation that you can collect such as:

- A copy of IRS Form 4868 (Application for Automatic Extension of Time to File U.S. Individual Income Tax Return)
- Copies of all of their W-2s (or equivalent)
- If self-employed, a signed statement indicating the amount of their AGI and their U.S. Income Taxes Paid.
- If applicable, a copy of the IRS's approval of an extension beyond the automatic six-month extension if the individual requested an additional extension of the filing time for tax year 2015
- Confirmation of non-filing from the IRS or other relevant taxing authority dated on or after October 1, 2016.

Foreign Tax Returns

What would you do with this?

平成24年分 給与所得の源泉徴収票

支払	※区分			(受給者番号) 006	
を受ける者	住所	京都市北区大北山鎮石町9-9-9		氏名	(フリガナ) ササベ ナホミ (俗名) 笹部 菜穂美
種別	支払金額	給与所得控除後の金額	所得控除の額の合計額	源泉徴収税額	
給与・賞与	内 平 月 6,823,400	内 平 月 4,941,060	内 平 月 2,885,038	内 平 月 0	
控除対象配偶者の有無	配偶者控除の額	控除対象扶養親族の数 (配偶者を除く)	控除対象扶養親族の控除額	社会保険料等の金額	生命保険料の控除額
有 無	平 月 円	特定 老人 その他	平 月 円	平 月 円	平 月 円
○	0	人 人 人	1,521,782	116,256	27,000
(扶養)住宅借入金等特別控除の金額		国民年金保険料等の金額		介護保険料等の金額	
191,900 円		179,090 円		32,512 円	
有価証券等譲渡所得 支払) 204,000 受取戻金) 55,000 社会保険料) 24,894		配偶者の合計所得		控除対象配偶者の金額	
居住開始年月日 H24.8.11 平常勤続(年少)		0		87,423	
普通徴収		国民年金保険料等の金額		国民年金保険料等の金額	
		120,000		5,000	
				18,000	
扶養 扶養家族 未成年者 外国人 死亡退職 災害者	乙欄	中途就・退職	受給者生年月日		
1人	特 別 其 他	就 職 退 職 年 月 日	明 太 昭 平 年 月 日		
		24	48 10 1		
支払者	住所(居所) 又は所在地	兵庫県神戸市東灘区御影0-0-0			
	氏名又は名称	株式会社今野デザイン (電話) 078-999-9999			

(税務署提出用)

Foreign Tax Returns

- The person who filed a foreign return must have the tax form translated to include all necessary information that is needed to complete verification.
- You also may be able to find helpful information online to assist you, once the return is translated.

How to read Japanese Tax Statements

- A** Taxpayer's Address
- B** Taxpayer's Name
- C** Total Salary earned during the year (Gross Salary)
- D** Income after employment income deduction
- E** Total income credit
- F** Income tax withheld at source
- G** Marital status and spousal exemption
- H** Number of dependents in each category: specific dependents (16-22yrs old), elderly dependents (70 and over), others (including children)
- I** Details of income credits (social insurance, life insurance, earthquake insurance, mortgage, spouse's income, personal pension, long-term accident insurance.)
- J** Date of Employment and Date of Termination
- K** Taxpayer's DOB
- L** Employer's Address
- M** Employer's Name

平成 年分 給与所得の源泉徴収票

支払を受ける者	住所又は居所	氏名		[受給者番号]	
A		B			
種別	支払金額	給与所得控除後の金額	所得控除の額の合計額	源泉徴収税額	
	C	D	E	F	
控除対象配偶者の有無等	配偶者特別控除の額	扶養親族の数のうち(配偶者を除く)	障害者の数のうち(本人を除く)	社会保険料等の金額	生命保険料の控除額
G	H				
(重要)住宅借入金等特別控除の金額				円	国民年金保険料等の金額
				円	配偶者の合計所得
				円	個人年金保険料の金額
				円	旧長期障害保険料の金額
未就学児童	乙 本人が障害者	甲 特別	甲 一般	甲 特別	甲 特別
中途就・退職				受給者生年月日	
J				K	
支払者	住所(国)所在地	東京 都 文京区 本郷7-2-1			
L	M	四立大学法人 東京大学			
		(電話)			
整理番号	①	②			

315-1

Questions?

