



Financial Aid Professional...or Tax Professional?

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The Facts

- “The Department of Education states that financial aid professionals are not expected to have special knowledge or expertise regarding the U.S. tax code. Even so, it requires them to identify students and parents who should have filed a tax return and did not, and identify incorrectly filed returns.”
 - - Iron Bridge Resources, on why they provide financial aid training

39% of questions on the paper FAFSA directly mention income, taxes, or a line from a tax return

- - Iron Bridge Resources statistic

Objectives



1. Present you with some common scenarios
2. Explain how we researched the situation
3. Provide you with tools to help answer your unique tax questions
4. NOT to answer specific questions about taxes
 - I. We are not tax professionals
 - II. We have not seen every scenario
 - III. We are constantly learning new details

Case study #1: Fraudulent Filer



Student admitted for spring start:

Selected for verification

Verification worksheet lists 3 household members:

- Student
- 2 parents

Parents unable to use DRT - when we received transcripts, we discovered that mom is a non-filer and dad filed Head of Household in 2016

Case study #1: Fraudulent Filer



Start Digging:

Confirmed with student that parents are married (and have been for more than 10 years)

Can dad file as Head of Household?

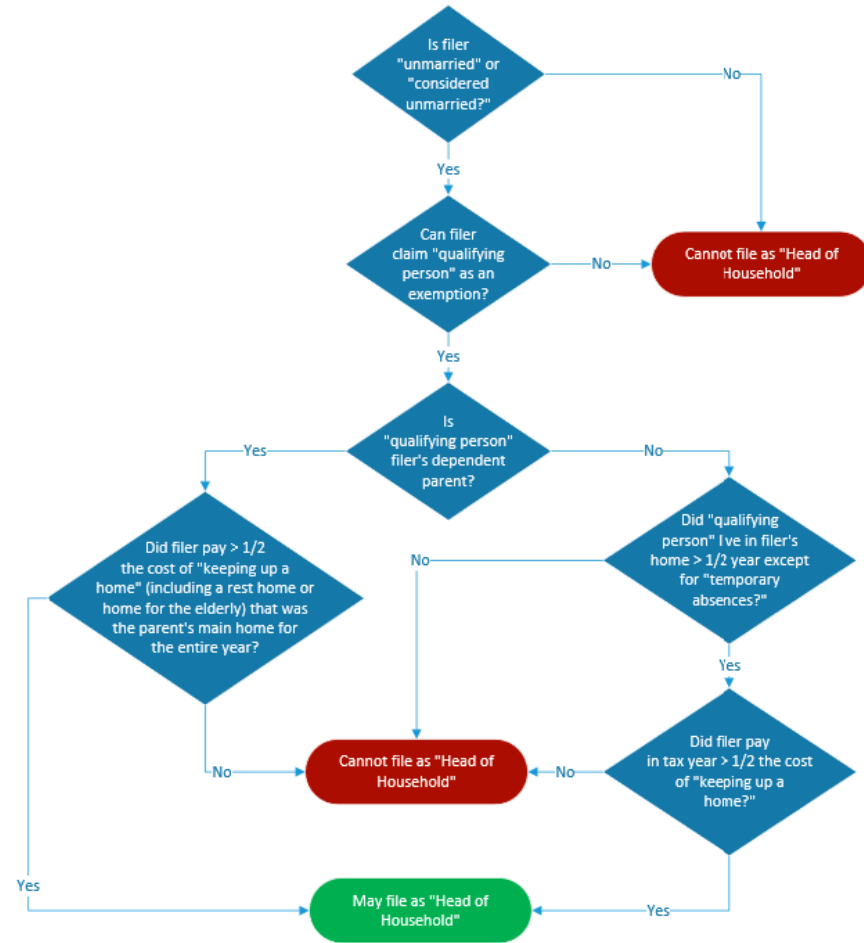
Head of Household filing requirements:

- Unmarried or considered unmarried on the last day of the year
- Paid more than half the cost of keeping up a home for the year
- A qualifying person lived with you in the home for more than half the year

Considered Unmarried requirements:

- File separate return (includes Married Filing Separate, Single, or Head of Household)
- Paid more than half the cost of keeping up home in the tax year
- Your spouse didn't live in your home during the last 6 months of the tax year
 - Temporary absences – will they return to the home?
- Your home was the main home of qualifying person
- You must be able to claim an exemption for the child

Parents are married, living together, not separated. Mom does not work.



Case study #1: Fraudulent Filer



Can dad file as Head of Household?

NO

What would you do?

Dad claimed that a lawyer had prepared his 2016 taxes; we requested documentation from lawyer

Received typed letter, unsigned, not on letterhead, from a tax accountant confirming that this accountant had prepared dad's 2018 taxes (not 2016)

What would you do?

Case study #1: Fraudulent Filer



We contacted the accountant. The accountant admitted he had been pressured by dad into providing the letter, *and that he had allowed the taxpayer to file HOH without confirming marital status.*

I inform dad he needs to amend his 2016 taxes.

He refuses.

We are unable to complete the verification and this student ended up receiving zero federal aid for the 2018-2019 year.

Case study #2: Rest in Peace



Student selected for verification, brought in his Tax Return Transcript which says he is DECEASED!

Student is standing right in front of me...

What would you do?

Case study #2: Rest in Peace



Resolution:

Student attempted to obtain documentation from the IRS that a processing error had been made. He was never able to obtain such documentation.

Student ultimately ended up writing a statement confirming that he was in fact alive, and provided a copy of his social security card for good measure

Case study #3: Double the Fun



Student admitted for Fall 2019

Selected for verification

FAFSA lists parents as married with marriage date of November 2017

Tax documents received with Head of Household filing status for both parents

Each parent has their own children in the household (last name and notated by “stepsibling”)

What would you do?

Case study #3: Double the Fun



Contacted student and parents to ask the following:

Are parents currently legally married?

YES

When were they married?

November 2017

Do they currently live together?

YES

Did they live together at all in 2017?

NO – due to blending households, parents got married but did not move in together until after the new year

Can these parents both file as Head of Household?

Head of Household filing requirements:

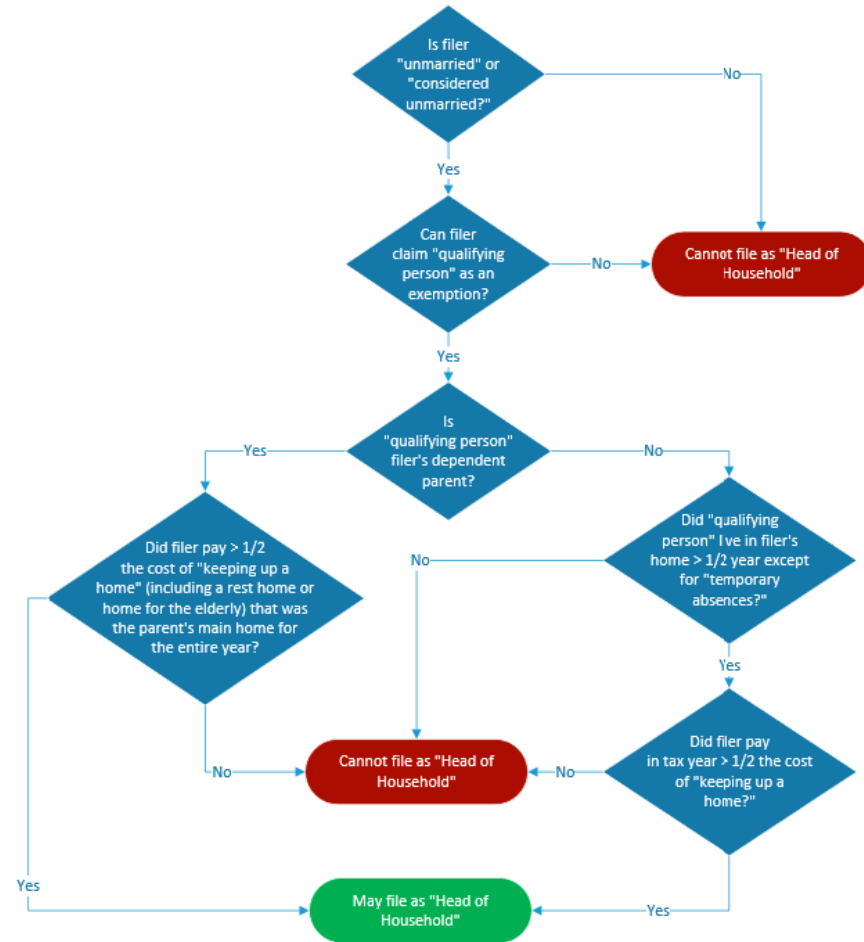
- Unmarried or considered unmarried on the last day of the year
- Paid more than half the cost of keeping up a home for the year
- A qualifying person lived with you in the home for more than half the year

Considered Unmarried requirements:

- File separate return (includes Married Filing Separate, Single, or Head of Household)
- Paid more than half the cost of keeping up home in the tax year
- Your spouse didn't live in your home during the last 6 months of the tax year
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- Your home was the main home of qualifying person
- You must be able to claim an exemption for the child

NASFAA Knowledgebase KA-33076 – “...there are several legitimate reasons why a married individual could have filed as head of household, including living apart due to employment conditions, family dynamics, and foreign residency.”

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PASFAA 2019 – HARVESTING KNOWLEDGE

Case study #4: Devil in the Details



Student admitted for Fall 2019:

Selected for verification

FAFSA lists custodial parent (mother) as “Never Married”

Verification worksheet lists two parents in household including:

- Stepfather
- Stepsiblings

What would you do?

Case study #4: Devil in the Details



Start digging:

Contacted student to ask for answers to the following:

Are mother and stepfather (as listed on verification worksheet) legally married?

YES

Do mother and stepfather live in the same household?

YES

When did mother and stepfather get married?

December 2018

Student responds that stepfather's income information is not needed since they were not married in 2017 (income year required for FAFSA), *and that he filed his FAFSA before they were married*

What would you do?

Case study #4: Devil in the Details



Scenario 1: FAFSA filed before marriage date

Stepparent not required at time of application (AVG-14) NASFAA Knowledgebase KA-32301 – “According to the U.S. Department of Education (ED), because the FAFSA is considered to be a ‘snapshot’ of the family’s financial situation as of the date the FAFSA was submitted, the parents cannot update their marital status or income and asset data after the FAFSA is filed. However, because the application was selected for verification (by the CPS or school), you must update the parent’s household size and number in college (but not parent marital status, income, or assets) to be correct at the time verification is completed.”

Scenario 2: FAFSA filed after marriage date

Must correct conflicting information and add parent

FAFSA was originally filed on 1/14/19

Scenario Review



What does Case Study 4 have to do with taxes?

- Financial aid scenarios are complicated
- We are expected to research and find the right answers
 - Is our conclusion reasonable/justifiable?
 - Will auditors care where we draw the line on these cases?
- Although not directly related to tax filing status, it requires a similar level of effort to find answer

Your Disclaimer: Best Practices



My disclaimer:

“I recommend that you consult a tax professional regarding your filing status and/or requirement to file an amended return. Although I have a working knowledge of tax regulations, a tax professional will be able to help ensure that you file your return/amendment correctly for your specific situation.”

What is your disclaimer?

Your Disclaimer: Best Practices



Remember that you are not a tax professional:

- Did the family use a tax professional to file their initial return?
 - Request letter of justification from tax professional
 - Is their explanation reasonable?
 - Is their explanation justifiable?
- If something still looks wrong, don't be afraid to:
 - Ask more questions
 - Consult a colleague
 - Consult a tax professional
- Do you understand the filing requirements for your particular scenario?
- Do you feel comfortable with your resolution?

Tax Professional... or FAA?



Option 3: Researcher

- Navigate and interpret regulations
- Determine best practice
- Write and update policies to remain compliance
- Utilize additional resources to inform decisions

Tax Professional... or FAA?



Is ED correct that we do not have to have special knowledge of tax code?

“Financial aid administrators do not need to be tax experts, yet there are some issues that even a layperson with basic tax law information can evaluate. Because conflicting data often involve such information, FAAs must have a fundamental understanding of relevant tax issues that can considerably affect the need analysis. You are obligated to know: (1) whether a person was required to file a tax return, (2) what the correct filing status for a person should be, and (3) that an individual cannot be claimed as an exemption by more than one person.”

- From the 2019-20 FAS Handbook, pages AVG-115 to AVG-116

Your Toolkit



1. FSA Application and Verification Guide (www.ifap.ed.gov)
2. NASFAA AskRegs (www.nasfaa.org)
3. IRS Publications (available at www.irs.gov):
 - a. Publication 17
 - b. Publication 501
4. Tax professional
5. Other FAAs
6. Common sense



Questions?
