

PASFAA 2021 Virtual Conference Introduction the 2020 Tax Returns and Tax Code Changes

Robert Weinerman, Director of Training
Iron Bridge Resources, LLC
robert@ironbridgeresources.com

1

2

Disclaimer


- This PowerPoint slide deck is part of a presentation and is not designed to be used as a stand-alone study document
- This information is provided to financial aid officers and other individuals who process, review, or explain financial aid applications
 - **Nothing in this presentation should be used in the preparation of the participant's, or anyone else's, income tax returns**
- In no event will Iron Bridge Resources, LLC be liable for any direct or indirect, special, or consequential damages to participants, users of this document, or their employers
 - **By participating in this session or reviewing this document, you agree to this statement**

© 2021 Iron Bridge Resources, LLC. All Rights Reserved.

2

Sourcing and Distribution

- The information cited in this presentation is based on the following information as available on October 17, 2021
 - IRS publications, forms, and form instructions for tax year 2020
 - The most recent versions of Department of Education publications
 - *The 2022-2023 pdf FAFSA*
 - *The Application and Verification Guide, 2021-2022*
 - *EFC Formula Guide, ISIR Guide, and SAR Comment Codes and Text, etc. for 2022-2023*
 - *Federal Registers, Electronic Announcements, and Dear Colleague Letters*
- Recording of this presentation is prohibited
- This conference session was created for and offered by the Pennsylvania Association of Student Financial Aid Administrators (PASFAA)
 - Distribution to people who did not attend the conference is prohibited



2020 Tax Code and Tax Form Changes to be Aware of

2020 Changes to the Income Tax

- Changes to the 2020 Form 1040 and Schedules 1, 2, and 3
 - The virtual currency question has moved from 2019's Schedule 1 to 2020's Schedule 2
 - Form 1040, line 10b allows a \$300 deduction for charity giving
 - Recovery Rebate Credit added to Form 1040, line 30
 - Various pandemic related payments and tax abatements added to Schedule 3, part II
- Changes to the 2020 Tax Code
 - No requirement to repay any excess premium tax credits (Schedule 2, line 2)
 - The first \$10,200 of unemployment compensation is tax-exempt for taxpayers and non-filers with AGIs less than \$150,000
 - COVID emergency withdrawals from IRAs/pensions available

© 2021 Iron Bridge Resources, LLC. All Rights Reserved.

5

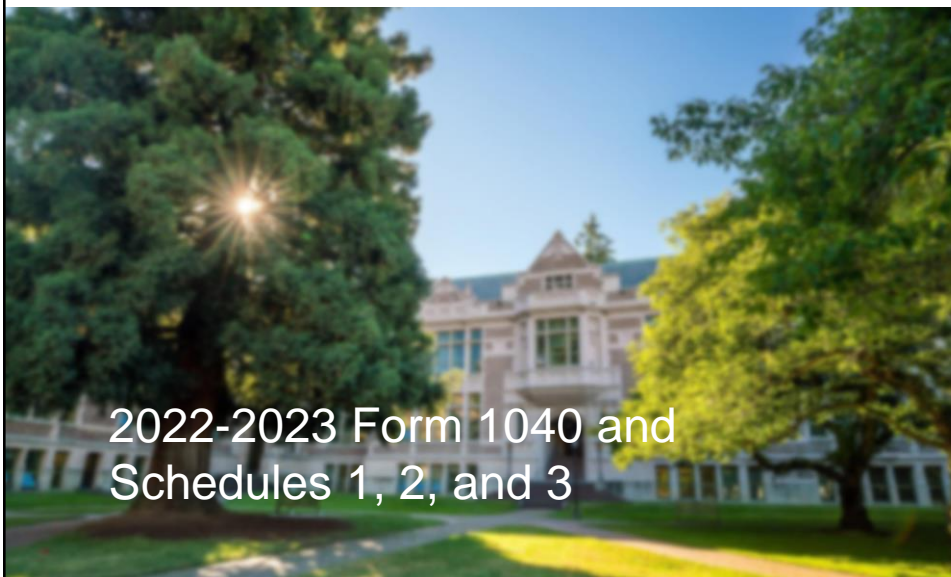
American Rescue Plan Act (ARPA)

- 2020* **tax code changes made in March 2021**
 - The requirement to repay excess advance premium tax credits (Schedule 2, line 2) is repealed
 - This will have no impact on the EFC but may cause some administrative problems
 - The first \$10,200 of unemployment compensation per taxpayer for taxpayers with modified AGIs less than \$150,000 is tax-exempt
- *The IRS asked taxpayers not to amend their return and estimates that it changed or will change over 10,000,000 taxpayers' returns to adjust for these two changes*

© 2021 Iron Bridge Resources, LLC. All Rights Reserved.

*These changes were made for 2020 only and are not available in 2021

6



2022-2023 Form 1040 and Schedules 1, 2, and 3

7

2020 Form 1040 Page 1 – Bottom

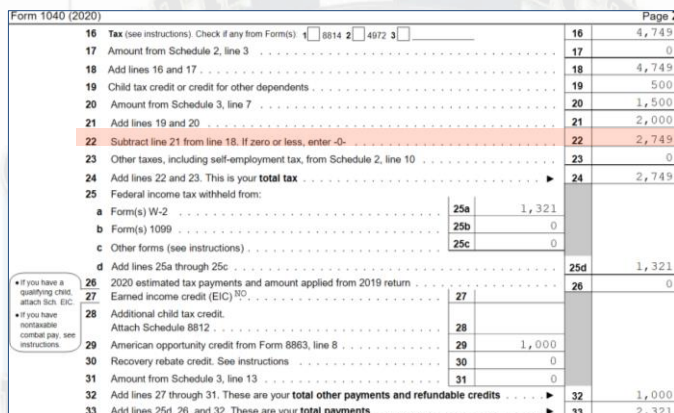
1 Wages, salaries, tips, etc. Attach Form W-2		1	19,221
2a Tax-exempt interest	2a 0	2b Taxable interest	2b 0
3a Qualified dividends	3a 0	3b Ordinary dividends	3b 0
4a IRA distributions	4a 75,000	4b Taxable amount	4b 0
5a Pensions and annuities	5a 75,000	5b Taxable amount	5b 25,000
6a Social security benefits	6a	6b Taxable amount	6b
7 Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>		7	0
8 Other income from Schedule 1, line 9		8	16,329
9 Add lines 1, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income		9	60,550
10 Adjustments to income:		10a	0
a From Schedule 1, line 22		10b	
b Charitable contributions if you take the standard deduction. See instructions		10c	0
c Add lines 10a and 10b. These are your total adjustments to income		10c	0
11 Subtract line 10c from line 9. This is your adjusted gross income		11	60,550
12 Standard deduction or itemized deductions (from Schedule A)		12	18,650
13 Qualified business income deduction. Attach Form 8995 or Form 8995-A		13	0
14 Add lines 12 and 13		14	18,650
15 Taxable income. Subtract line 14 from line 11. If zero or less, enter -0-		15	41,900

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate Instructions. Form 1040 (2020)

- A** Adjusted Gross Income (AGI) = Form 1040, line 11
- B** Tax Exempt Interest Income = Form 1040, line 2a
- C** Untaxed Portions of IRA Distributions and Pensions =
Form 1040, (line 4a minus line 4b) plus (line 5a minus line 5b)

8

2020 Form 1040 – Page 2



Form 1040 (2020) Page 2

16 Tax (see instructions). Check if any from Forms 1 ☐ 8814 2 ☐ 4872 3 ☐ 16 4,749

17 Amount from Schedule 2, line 3 17 0

18 Add lines 16 and 17 18 4,749

19 Child tax credit or credit for other dependents 19 500

20 Amount from Schedule 3, line 7 20 1,500

21 Add lines 19 and 20 21 2,000

22 Subtract line 21 from line 18. If zero or less, enter -0- 22 2,749

23 Other taxes, including self-employment tax, from Schedule 2, line 10 23 0

24 Add lines 22 and 23. This is your total tax 24 2,749

25 Federal income tax withheld from:

a Form(s) W-2 25a 1,321

b Form(s) 1099 25b 0

c Other forms (see instructions) 25c 0

d Add lines 25a through 25c 25d 1,321

26 2020 estimated tax payments and amount applied from 2019 return 26 0

27 Earned income credit (EIC) ¹⁰⁰ 27 0

28 Additional child tax credit. Attach Schedule 8812 28 0

29 American opportunity credit from Form 8863, line 8 29 1,000

30 Recovery rebate credit. See instructions 30 0

31 Amount from Schedule 3, line 13 31 0

32 Add lines 27 through 31. These are your total other payments and refundable credits 32 1,000

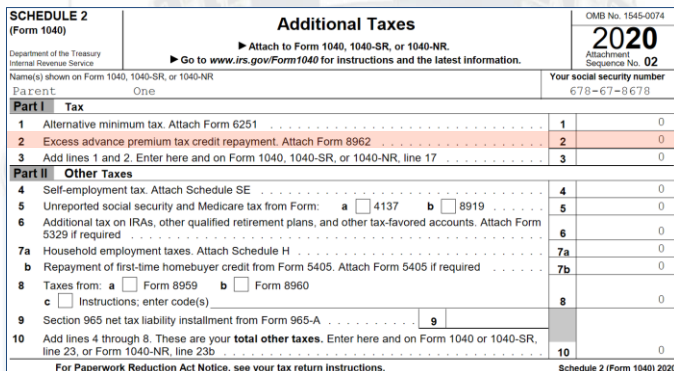
33 Add lines 25d, 26, and 32. These are your total payments 33 2,321

D1

Income Tax for 2020 =

Form 1040, line 22 minus Schedule 2, line 2

Schedule 2



SCHEDULE 2 (Form 1040) Additional Taxes

Department of the Treasury Internal Revenue Service

Go to www.irs.gov/Form1040 for instructions and the latest information.

Name(s) shown on Form 1040, 1040-SR, or 1040-NR: Parent One

Your social security number: 678-67-8678

Part I Tax

1 Alternative minimum tax. Attach Form 6251 1 0

2 Excess advance premium tax credit repayment. Attach Form 8962 2 0

3 Add lines 1 and 2. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 17 3 0

Part II Other Taxes

4 Self-employment tax. Attach Schedule SE 4 0

5 Unreported social security and Medicare tax from Form: a ☐ 4137 b ☐ 8919 5 0

6 Additional tax on IRAs, other qualified retirement plans, and other tax-favored accounts. Attach Form 5329 if required 6 0

7a Household employment taxes. Attach Schedule H 7a 0

b Repayment of first-time homebuyer credit from Form 5405. Attach Form 5405 if required 7b 0

8 Taxes from: a ☐ Form 8959 b ☐ Form 8960 c ☐ Instructions; enter code(s) 8 0

9 Section 965 net tax liability installment from Form 965-A 9 0

10 Add lines 4 through 8. These are your total other taxes. Enter here and on Form 1040 or 1040-SR, line 23, or Form 1040-NR, line 23b 10 0

For Paperwork Reduction Act Notice, see your tax return instructions. Schedule 2 (Form 1040) 2020

D2

Income Tax for 2020 =

Form 1040, line 22 minus Schedule 2, line 2

Schedule 1 – Bottom

Part II Adjustments to Income		
10	Educator expenses	0
11	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	0
12	Health savings account deduction. Attach Form 8889	0
13	Moving expenses for members of the Armed Forces. Attach Form 3903	0
14	Deductible part of self-employment tax. Attach Schedule SE	0
15	Self-employed SEP, SIMPLE, and qualified plans	E ¹ 0
16	Self-employed health insurance deduction	0
17	Penalty on early withdrawal of savings	0
18a	Alimony paid	0
b	Recipient's SSN	
c	Date of original divorce or separation agreement (see instructions) ▶	
19	IRA deduction	E ² 0
20	Student loan interest deduction	0
21	Tuition and fees deduction. Attach Form 8917	0
22	Add lines 10 through 21. These are your adjustments to income. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 10a	0

For Paperwork Reduction Act Notice, see your tax return instructions. Schedule 1 (Form 1040) 2020

E IRA deductions and payments to self-employed plans =
Schedule 1, line 15 plus Schedule 1, line 19

© 2021 Iron Bridge Resources, LLC. All Rights Reserved.

11

Schedule 3

SCHEDULE 3 (Form 1040)		Additional Credits and Payments		OMB No. 1545-0074
Department of the Treasury Internal Revenue Service		▶ Attach to Form 1040, 1040-SR, or 1040-NR. ▶ Go to www.irs.gov/Form1040 for instructions and the latest information.		2020 Attachment Sequence No. 03
Name(s) shown on Form 1040, 1040-SR, or 1040-NR		Your social security number		
Parent One		678-67-678		
Part I Nonrefundable Credits				
1	Foreign tax credit. Attach Form 1116 if required	1	0	
2	Credit for child and dependent care expenses. Attach Form 2441	2	0	
3	Education credits from Form 8863, line 19	3	1,500	F
4	Retirement savings contributions credit. Attach Form 8880	4	0	
5	Residential energy credits. Attach Form 5695	5	0	
6	Other credits from Form: a 3800 b 8801 c	6	0	
7	Add lines 1 through 6. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 20	7	1,500	

F Education Credits = Schedule 3, line 3

© 2021 Iron Bridge Resources, LLC. All Rights Reserved.

12

Schedule 1 – Health Savings Account

Part II Adjustments to Income			
10	Educator expenses	10	0
11	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	11	0
12	Health savings account deduction. Attach Form 8889	12	0
13	Moving expenses for members of the Armed Forces. Attach Form 3903	13	0
14	Deductible part of self-employment tax. Attach Schedule SE	14	0
15	Self-employed SEP, SIMPLE, and qualified plans	15	0
16	Self-employed health insurance deduction	16	0
17	Penalty on early withdrawal of savings	17	0
18a	Alimony paid	18a	0
b	Recipient's SSN	b	0
c	Date of original distribution	c	0
19	IRA deduction	19	0
20	Student loan interest deduction	20	0
21	Tuition and fees deduction. Attach Form 8917	21	0
22	Add lines 10 through 21. These are your adjustments to income. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 10a	22	0

For Paperwork Reduction Act Notice, see your tax return instructions. Schedule 1 (Form 1040) 2020

© 2021 Iron Bridge Resources, LLC. All Rights Reserved.

- HSA Deduction = **Schedule 1, line 12** and should be compared to the ISIR answers for Q44h and Q92h

13

Schedule 1 – Health Savings Account

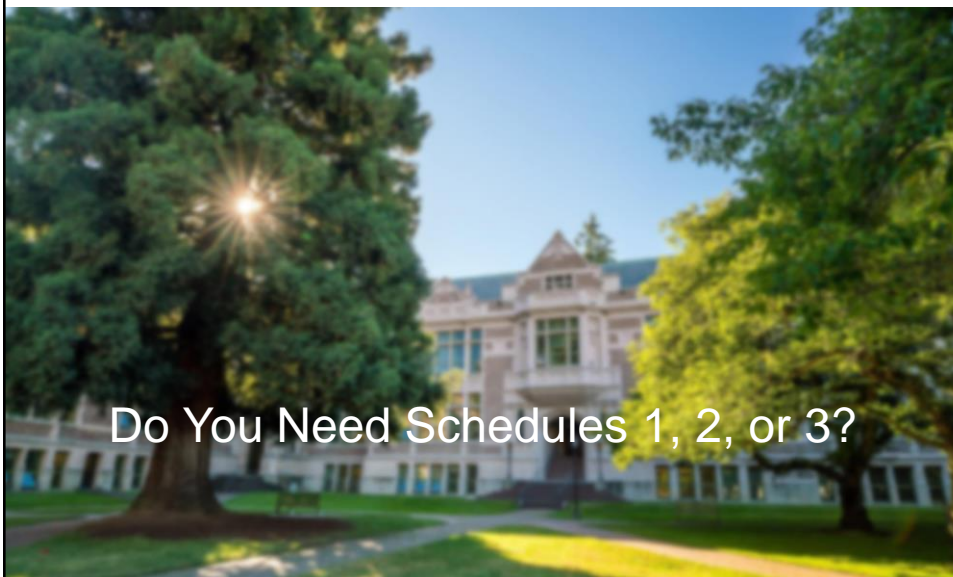
Part II Adjustments to Income			
10	Educator expenses	10	0
11	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	11	0
12	Health savings account deduction. Attach Form 8889	12	0
13	Moving expenses for members of the Armed Forces. Attach Form 3903	13	0
14	Deductible part of self-employment tax. Attach Schedule SE	14	0
15	Self-employed SEP, SIMPLE, and qualified plans	15	0
16	Self-employed health insurance deduction	16	0

FAFSA answer vs. line 12	Action needed
Q44h or Q92h is greater than or equal to Schedule 1, line 12	No conflicting information
Q44h or Q92h is 0 and Schedule 1, line 12 is non-zero	Correct Q44h or Q92h using the value from Schedule 1, line 12
Q44h or Q92h is not zero and Schedule 1, line 12 is greater than Q44h or Q92h	Ask the applicant what made up the Q44h or Q92h income, and add Schedule 1, line 12, to it*

*You cannot tell from the tax return if Q44h or Q92h includes other kinds of untaxed income or is an incorrectly reported HSA contribution. You must find out what was reported in these questions before correcting the answer to include the HSA value.

© 2021 Iron Bridge Resources, LLC. All Rights Reserved.

14



Do You Need Schedules 1, 2, or 3?

15

Form 1040 Page 1 – Schedule 1

1	Wages, salaries, tips, etc. Attach Form(s) W-2	1	19,221
2a	Tax-exempt interest	2a	0
3a	Qualified dividends	3a	0
4a	IRA distributions	4a	0
5a	Pensions and annuities	5a	75,000
6a	Social security benefits	6a	0
7	Capital gain or (loss). Attach Schedule D if required. If not required, check here	7	0
8	Other income from <u>Schedule 1, line 9</u>	8	16,329
9	Add lines 1, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income	9	60,550
10	Adjustments to income:		
a	From <u>Schedule 1, line 22</u>	10a	0
b	Charitable contributions if you take the standard deduction. See instructions	10b	0
c	Add lines 10a and 10b. These are your total adjustments to income	10c	0
11	Subtract line 10c from line 9. This is your adjusted gross income	11	60,550
12	Standard deduction or itemized deductions (from Schedule A)	12	18,650
13	Qualified business income deduction. Attach Form 8995 or Form 8995-A	13	0
14	Add lines 12 and 13	14	18,650
15	Taxable income. Subtract line 14 from line 11. If zero or less, enter -0-	15	41,900

Filed a
Schedule 1

May have an
IRA deduction

- A non-zero value on Form 1040, lines 8 or 10a indicates that the taxpayer filed a Schedule 1
- Form 1040, line 10a is where the taxpayer reports adjustments to income including the IRA deduction (the only verification item on Schedule 1)

16

Form 1040 Page 2 – Schedules 2 & 3

16	Tax (see instructions). Check if any from Form(s) 1 8814 2 4972 3	16	4,749
17	Amount from Schedule 2, line 3	17	0
18	Add lines 16 and 17	18	4,749
19	Child tax credit or credit for other dependents	19	500
20	Amount from Schedule 3, line 7	20	1,500
21	Add lines 19 and 20	21	2,000
22	Subtract line 21 from line 18. If zero or less, enter 0	22	2,749
23	Other taxes, including self-employment tax, from Schedule 2, line 10	23	0
24	Add lines 22 and 23. This is your total tax	24	2,749
25	Federal income tax withheld from:		
a	Form(s) W-2	25a	1,321
b	Form(s) 1099	25b	0
c	Other forms (see instructions)	25c	0
d	Add lines 25a through 25c	25d	1,321
26	2020 estimated tax payments and amount applied from 2019 return	26	0
27	Earned income credit (EIC) ¹⁰	27	0
28	Additional child tax credit. Attach Schedule 8812	28	0
29	American opportunity credit from Form 8863, line 8	29	1,000
30	Recovery rebate credit. See instructions	30	0
31	Amount from Schedule 3, line 13	31	0
32	Add lines 27 through 31. These are your total other payments and refundable credits	32	1,000
33	Add lines 25d, 26, and 32. These are your total payments	33	2,321

Check
Schedule 2, line 2

May have
Education Credits

Has a Schedule 2
but nothing on line
23 is FM relevant

Filed Schedule 2

Filed Schedule 3

Has Schedule 3
but nothing on line
31 is FM relevant

- Non-zero values on line 17 or 20 indicate the possibility of verification information on Schedule 2 or Schedule 3, respectively

© 2021 Iron Bridge Resources, LLC. All Rights Reserved.

17



“Did You File a Schedule 1?”
(Discretionary Correction?)

18

Did You File Schedule 1?

82. Did (or will) your parents file a Schedule 1 with their 2020 tax return? Answer **"No"** if they did not file a Schedule 1 or **only filed** a Schedule 1 to report: unemployment compensation, educator expenses, IRA deduction, student loan interest deduction, or Alaska Permanent Fund dividend. See **Notes page 9**.

Yes ☐ 2
No ☐ 1
Don't know ☐ 3

Notes for questions 35 (page 4) and 82 (page 6)

Answer **"No"** if you (and if married, your spouse) did not file a Schedule 1. Answer **"No"** if you (and if married, your spouse) did or will file a Schedule 1 to report **only one or more** of the following items:

1. Unemployment compensation (line 7)
2. Other income to report an Alaska Permanent Fund dividend (line 8 – may not be a negative value)
3. Educator expenses (line 10)
4. IRA deduction (line 19)
5. Student loan interest deduction (line 20)

Answer **"Yes"** if you (or if married, your spouse) filed or will file a Schedule 1 and reported additional income or adjustments to income on any lines **other than or in addition to** the five exceptions listed above.

If you do not know if you filed or will file a Schedule 1, select **"Don't know."**

Used to determine eligibility for the Simplified Formula and the Automatic Zero EFC

pdf FAFSA Page 9

Schedule 1 – OK to Answer "No"

Part I Additional Income		
1	Taxable refunds, credits, or offsets of state and local income taxes	0
2a	Alimony received	
b	Date of original divorce or separation agreement (see instructions)	
3	Business income or (loss). Attach Schedule C	0
4	Other gains or (losses). Attach Form 4797	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	
6	Farm income or (loss). Attach Schedule F	0
7	Unemployment compensation	25,792
8	Other income. List type and amount Alaska	1,984
9	Combine lines 1 through 8. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8	31,776
Part II Adjustments to Income		
10	Educator expenses	250
11	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	0
12	Health savings account deduction. Attach Form 8889	0
13	Moving expenses for members of the Armed Forces. Attach Form 3903	0
14	Deductible part of self-employment tax. Attach Schedule SE	0
15	Self-employed SEP, SIMPLE, and qualified plans	0
16	Self-employed health insurance deduction	0
17	Penalty on early withdrawal of savings	0
18a	Alimony paid	
b	Recipient's SSN	
c	Date of original divorce or separation agreement (see instructions)	
19	IRA deduction	7,000
20	Student loan interest deduction	2,500
21	Tuition and fees deduction. Attach Form 8917	
22	Add lines 10 through 21. These are your adjustments to income. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 10a	9,750

Unemployment Compensation

Alaska Fund (in 2020, it was \$992 per person or \$1,984 if both filers were eligible)

Educator Expenses

IRA Deduction

Student Loan Interest Deduction

Schedule 1 – Must Answer “Yes”

Part I Additional Income		
1	Taxable refunds, credits, or offsets of state and local income taxes	0
2a	Alimony received	
b	Date of original divorce or separation agreement (see instructions)	
3	Business income or (loss). Attach Schedule C	12,650
4	Other gains or (losses). Attach Form 4797	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	
6	Farm income or (loss). Attach Schedule F	0
7	Unemployment compensation	
8	Other income. List type and amount Alaska Jury Duty	2,021
9	Combine lines 1 through 8. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8	14,671
Part II Adjustments to Income		
10	Educator expenses	
11	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	0
12	Health savings account deduction. Attach Form 8889	0
13	Moving expenses for members of the Armed Forces. Attach Form 3903	0
14	Deductible part of self-employment tax. Attach Schedule SE	
15	Self-employed SEP, SIMPLE, and qualified plans	3,350
16	Self-employed health insurance deduction	
17	Penalty on early withdrawal of savings	0
18a	Alimony paid	
b	Recipient's SSN	
c	Date of original divorce or separation agreement (see instructions)	
19	IRA deduction	
20	Student loan interest deduction	
21	Tuition and fees deduction. Attach Form 8917	4,000
22	Add lines 10 through 21. These are your adjustments to income. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 10a	7,350

Jury duty pay is not listed as an exception in the FAFSA instructions

HSA Deduction or Self-employed IRA Deduction (even though these are FAFSA items)

Tuition and Fees Deduction

© 2021 Iron Bridge Resources, LLC. All Rights Reserved.

21

Tax-exempt Unemployment

- For tax year 2020, the first \$10,200 of unemployment compensation is tax-exempt if the taxpayer's modified Adjusted Gross Income (mAGI) is less than \$150,000
 - Taxpayers claiming the unemployment compensation exclusion (UCE) will report
 - 100% of their unemployment compensation on Schedule 1, line 7
 - Their UCE as a negative number on Schedule 1, line 8

Notes for questions 35 (page 4) and 82 (page 6)

Answer “No” if you (and if married, your spouse) did not file a Schedule 1.

Answer “No” if you (and if married, your spouse) did or will file a Schedule 1 to report **only one or more** of the following items:

- Unemployment compensation (line 7)
- Other income to report an Alaska Permanent Fund dividend (line 8 – may not be a negative value)

© 2021 Iron Bridge Resources, LLC. All Rights Reserved.

22

Schedule 1 – OK to Answer “No”?

Part I Additional Income	
1 Taxable refunds, credits, or offsets of state and local income taxes	1 0
2a Alimony received	2a
b Date of original divorce or separation agreement (see instructions)	4
3 Business income or (loss). Attach Schedule C	3 0
4 Other gains or (losses). Attach Form 4797	4
5 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5
6 Farm income or (loss). Attach Schedule F	6 0
7 Unemployment compensation	7 25,702
8 Other income. List type and amount Alaska UCE	8 -15,416
9 Combine lines 1 through 8. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8	9 11,376

Almost everyone who received unemployment compensation in 2020 will have a negative value on Schedule 1, line 8

© 2021 Iron Bridge Resources, LLC. All Rights Reserved.

- On this Schedule 1, Part I of this joint return, the only values on the Schedule are related to unemployment compensation, but Line 8 is a negative number
- Confirmed with the Department of Education**
 - The IRS DRT will return a “YES” answer to the “Did you file a Schedule 1?” question for the above tax return
- No Answer from the Department of Education**
 - The correct answer to the Schedule 1 question for the above
 - Whether a school can “correct” the “Yes” to “No”

23

10/15 Electronic Announcement

- Corrects and updates the September 30, 2021, version of EA APP-21-18

POSTED DATE: September 30, 2021
 AUTHOR: Federal Student Aid
 ELECTRONIC ANNOUNCEMENT ID: APP-21-18
 SUBJECT: Impact of American Rescue Plan Change to Tax Treatment of Unemployment Benefits on Student Aid Eligibility for Cycle 2022–23 (Updated Oct. 15, 2021)

Note

We updated this Electronic Announcement on October 15, 2021, adding a provision to remove untaxed unemployment benefits from the applicant's (or the parents' or spouse's) AGI or untaxed income on the FAFSA. We also deleted the sentence that encouraged FAAs to use professional judgement to remove untaxed unemployment benefits from AGI because we consider that change a correction. The Secretary waives the requirement to report those untaxed unemployment benefits as untaxed income as authorized under the Higher Education Relief Opportunities for Students Act of 2003 (HEROES Act).

© 2021 Iron Bridge Resources, LLC. All Rights Reserved.

24

10/15 Electronic Announcement

- (APP-21-18) Impact of American Rescue Plan Change to Tax Treatment of Unemployment Benefits on Student Aid Eligibility for Cycle 2022–23 (Updated)

Tax filers who received unemployment benefits in 2020 and filed taxes prior to March 11, 2021, will have a higher Adjusted Gross Income (AGI) on their original tax record compared to those who filed (or amended) after the enactment of the ARP.

Potential Impact to Student Aid Eligibility for 2022–23 FAFSA form cycle:

FAFSA filers who meet the conditions above and use the IRS DRT for the 2022–23 year will have a higher AGI, resulting in a higher EFC which may potentially reduce their eligibility for federal need-based aid. Also, tax filers who filed taxes after March 11 and reduced their taxable unemployment benefits by the allowable amount might have included that amount in untaxed income on the FAFSA.

Therefore, when financial aid administrators become aware that an applicant's FAFSA/ISIR includes untaxed unemployment benefits either in the applicant's (or the parents' or spouse's) AGI or in untaxed income, those benefits should be removed. The Secretary waives the requirement to report those untaxed unemployment benefits as untaxed income as authorized under the HEROES Act.

<https://fsapartners.ed.gov/knowledge-center/library/electronic-announcements/2021-09-30/impact-american-rescue-plan-change-tax-treatment-unemployment-benefits-student-aid-eligibility-cycle-2022-23>

25

Key Takeaways from the EA

- Tax-exempt unemployment compensation **should not be reported as untaxed income on the FAFSA**
- You should remove the untaxed portion of unemployment compensation if you learn about it
 - If the taxpayer did not claim the UCE
 - **reduce the AGI by the value of the tax-exempt unemployment compensation and reduce the income tax for 2020**
 - If the taxpayer did claim the UCE
 - **review FAFSA questions 44h and 92h. If these contain the UCE on Schedule 1, line 8, correct that value by removing the UCE**
- **These are considered corrections**, not professional judgments

26

