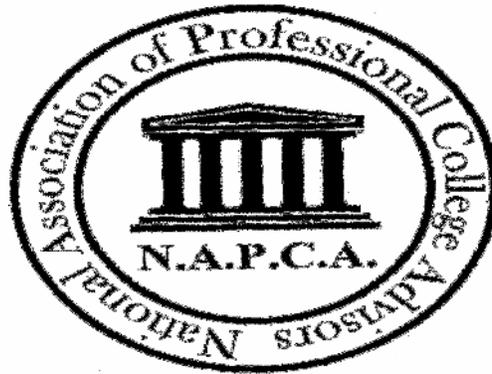




STRATEGIC PLANNING FOR A COLLEGE EDUCATION

HELPING FAMILIES PAY FOR THE COST OF A COLLEGE EDUCATION



Guide To Completing The FAFSA

COMPLETING THE 2006-2007 FAFSA (STUDENT) QUESTIONS

STEP ONE

Purpose: Step one collects personal identification information (name, telephone number, address, Social Security Number, and so on). This step includes a question about citizenship status because you must be a U.S. citizen or non-citizen (legal immigrant) to receive federal student aid.

Questions 1-17

1-3. Name: Because the Department matches each name and Social Security Number (SSN) with the Social Security Administration (SSA), the name provided here should match the name on your Social Security card. If you use a name (such as a nickname) other than the name on your Social Security card, you will be asked to correct the inconsistency, and there might be a delay in the awarding of your aid.

4-7. Your permanent mailing address: You must give a permanent home mailing address (not a school or office address).

An incarcerated student may use his or her school's administrative address. If such a student uses a school's administrative address, the school's Financial Aid Administrator (FAA) must include a letter with the FAFSA indicating that the student is incarcerated and is therefore using the school's address.

Use the State Abbreviations list when entering your state.

8. Social Security Number (SSN). Generally, you must have a SSN to be eligible for federal student financial aid. If you submit a FAFSA without a SSN, your FAFSA will be returned to you unprocessed. The Privacy Act Statement gives information about how your SSN may be used.

To apply for a SSN or to get a replacement Social Security card, if yours has been lost or stolen, contact your local Social Security office. For additional information (in English or Spanish), you can call the SSA at 800-772-1213 (1-800-325-0778-TTY) or go to its web site at www.ssa.gov.

The one exception to the SSN requirement clause is for students from the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau. If you are from one of these areas and do not have an SSN, you should leave Question 8 blank and send your FAFSA to the following address — not to the address on the FAFSA or the FAFSA envelope:

Federal Student Aid Programs
P.O. Box 4003
Mount Vernon, IL 62864-860

9. Your Date of Birth.

10. Your Permanent Telephone Number: Do not give your cell number or office number. Only give your Permanent Home Number.

11-12. Your Driver's license number and state: You must provide your driver's license number (if any). If you do not have a driver's license, leave Questions 11 and 12 blank.

13. If you do not want to receive information through E-mail do not complete this question.

14. Citizenship status: You can receive federal student financial aid only if you are a U.S. citizen or an eligible non-citizen. If you have changed from a non-citizen to a citizen and have not informed the SSA contact the SSA to update your status. Otherwise, the SSA may report that you are not a citizen, and you will have to provide citizenship documentation before receiving aid.

For financial aid purposes, an eligible non-citizen is one of the following:

- A U.S. permanent resident who has an Alien Registration Receipt Card (I-551 or I-151)
- A conditional permanent resident (I-551C)
- A non-citizen with a Departure record (I-94) from the U.S. Immigration and Naturalization Service (INS) showing any one of the following designations: "Refugee," "Asylum Granted," "Indefinite Parole," "Humanitarian Parole," or "Cuban-Haitian Entrant."

If you are not a citizen, nor an eligible non-citizen, you cannot receive federal aid while you are in the U.S. on one of the following:

- An F-1, F-2, or M-1 student visa
- A J-1 or J-2 exchange visitor visa
- A B-1 or B-2 visitor visa
- A G series visa (pertaining to international organizations)
- An H series or L series visa (allowing temporary employment in the U.S.)
- A "Notice of Approval to Apply for Permanent Residence" (I-171 or I-464)
- An I-94 stamped "Temporary Protected Status"

However, you may be eligible for state or institutional aid and may therefore wish to complete the FAFSA to apply for that aid. Fill in oval C for Question 14.

15. Alien Registration Number (A-Number): If you are an eligible non-citizen, enter your eight- or nine-digit A-Number. Leave the first space blank if you have an eight-digit A-Number.

If you answer "yes" to the question asking whether you are a U.S. citizen, do not indicate an A-Number in this question. If an A-Number is present, the Department will check with the INS to confirm your status.

16. Marital status: Your marital status directly affects how your income and assets are treated in the EFC calculation. You must report your marital status as of the date the application is completed.

17. Date of marital status: You should enter the date you married, divorced, separated, or were widowed. If you never married, leave this question blank. If your current marital status is "divorced," enter the date you separated. If you were not separated, enter the date you became divorced.

Questions 18-22

18. What is your state of legal resident? States have varying criteria for determining whether you are a resident for purposes of state financial aid. However, if you established a true, fixed, and permanent home in any state more than four years ago, you will meet its criteria. The Department will disclose your FAFSA information to state agencies in your state of legal residence, to each school listed on the FAFSA, and to state agencies in the state in which each school is located. State and institutional programs may use the information provided on the FAFSA to determine your eligibility for state and institutional aid.

Your state of legal residence is also used in the EFC calculation to determine the appropriate allowance for state and other taxes paid by that state's residents.

Your residence is your true, fixed, and permanent home. If you are a dependent student, the state of legal residence is usually the state in which your parents live. If you moved into a state for the sole purpose of attending a college, do not count that state as your legal residence. Use the State Abbreviation list to provide the abbreviation for your state. This list can be found in the FAFSA packet.

19. When did you become legal residence? Your state will use this information to determine whether you meet its specific residency criteria for state aid.

20. If you answered "No" to the question on 19 asking if you became a legal resident of your state before January 1, 2000, provide the month and year you became a legal resident of your state.

21. Are you male? To receive federal student financial aid, male students who are at least 18 years old must be registered with Selective Service. Indicate whether you are male.

22. Selective-Service Registration: If you are male, 18 through 25 years of age, and have not registered with Selective Service, you can enter "Yes" to give Selective Service permission to register you. You can also register on the web at www.sss.gov.

If you believe that you are not required to register, call the Selective Service office at 847-688-6888 for information regarding exemptions. Female students should leave Question 28 blank.

Questions 23-31

23. Degree or certificate. Write in the one-digit code for your expected degree or certificate, using the "Degree/Certificate Code List" below. If your degree or certificate does not fit any of these categories, or if you are undecided, enter "9."

24. Grade level during 2006-2007. Choose from the following:

Enter:	For:
1	1 st Bachelor's degree
2	2 nd Bachelor's degree
3	Associate degree (occupational or technical program)
4	Associate degree (general education or transfer program)
5	Certificate or diploma for completing an occupational, technical, or educational program of less than two years
6	Certificate or diploma for completing an occupational, technical, or educational program of at least two years
7	Teaching credential program (non-degree program)
8	Graduate or professional degree
9	Other/undecided

25. High school diploma/GED: If you will receive your High School Diploma or earn a General Education Development (GED) certificate or equivalent home school credential before you enroll in college, answer, "Yes" to this question. Otherwise, answer "No."

26. 1st bachelor's degree: This question has a direct bearing on your eligibility for Federal Pell Grants and Federal Supplemental Educational Opportunity Grants, which are primarily restricted to students who have not yet received bachelor's degrees, with one exception. (The only exception is that certain students taking courses for teacher certification may receive a Pell Grant.) You must answer "Yes" to this question if you have (or will have by July 1, 2006) a degree from a college in the U.S., or an equivalent degree from a college in another country. If you incorrectly report, "Yes" to this question, you will be ineligible for a Federal Pell Grant unless a correction is made.

If you attend two different colleges during the same enrollment period, you must notify the Financial Aid Administrators (FAA's) at both schools. You may not receive Federal Pell Grants at both schools.

27-28. Types of aid. These questions ask you to indicate what types of aid, in addition to grants, you are interested in receiving. Please note that although the FAFSA assumes you are interested in grant aid (aid you do not have to pay back), you are not required to accept any grants offered to you.

TIP: Federal, state, and institutional programs all may use the information from this question to determine what types of aid to award. If you are not sure, you should answer "Yes" to both of these questions; you will then be considered for all types of aid that are available. You can decline any aid that is later awarded. If only your parents wish to take out loans for your education, check "Yes" to "student loans."

29-30. Father's/mother's highest school level. These questions do not affect your eligibility for federal student aid. Some state and institutional programs use the information provided here to offer aid to first-generation college students. Enter the highest-grade level completed by your father and mother. "Father" and "Mother" in these questions mean your birth parents or adoptive parents, but not stepparents or foster parents. Note that this definition of parents is unique to these two questions. All other questions use the definition given on page 7 of the paper FAFSA.

31. Illegal drug offenses. Question 31 asks whether you have been convicted of possessing or selling illegal drugs. If you have been convicted, you are not necessarily ineligible for aid. Students with convictions will receive worksheets (see below) with their Student Aid Reports to determine whether the conviction affects the student's eligibility for federal student aid.

If you have a conviction, you should still complete and submit the FAFSA because even if you are ineligible for federal student aid, you might still be eligible for state or institutional aid. Many states and schools use the data supplied by the FAFSA to determine a student's eligibility for aid from those entities.

Do not leave Question 31 blank. You will not be able to receive aid until you have provided an answer to this question. For assistance in answering this question, call the Federal Student Aid Information Center (FSAIC) at 800-4-FED-AID.

STEP 2

Purpose: All students (dependent and independent) must provide financial information in Step Two. The **EFC** calculation, determined by a formula specified by law, uses a family's income, household size, and certain expenses to determine whether the family has discretionary income. If the family has discretionary income, a portion, and only a portion, of that income is included in the EFC as available for a student's educational costs.

Questions 32-42

How to Complete the Income Tax Section

It is best if you (and your spouse) fill out your 2005 income tax return(s) before filling out this application. However, if you have not completed your income tax return(s), you should calculate your're Adjusted Gross Income (AGI) and taxes paid using the instructions for IRS Form 1040. You can get the instructions

and the form at a public library, your local post office, or download them in Portable Document Format (PDF) from http://www.irs.gov/forms_pubs/forms.html

If your application is compared with the tax return(s) you (and your spouse) actually file, the financial information must agree. If there are differences, you will need to correct the information on the web or send it back to the FAFSA processor. This could mean a delay in getting student financial aid.

Even if you (and your spouse) are not required to file a 2005 income tax return, you will need to calculate your earnings for the year. Use W-2 Forms and other records to answer the questions in this section.

If an answer is zero or a question does not apply to you, enter 0 (zero).

For the 2006-07 FAFSA, the "base year" for completing income tax questions is 2005. Income tax questions give 2005 Internal Revenue Service (IRS) tax form line references.

If you are married at the time you submit the FAFSA, even if you were not married in 2005, you and your spouse's income, assets, and exemptions must be reported. If you and your spouse filed (or will file) separate tax returns for 2005, be sure to include information from both returns. If you are single, divorced, separated, or widowed, you should answer the questions for yourself only and ignore the references on the FAFSA to "spouse."

If you are divorced, separated, or widowed but filed (or will file) a joint tax return for 2005, you should give only your portion of the exemptions, income, and taxes paid for the income and asset questions.

Information from one of the following 2005 income tax forms may be listed on the FAFSA in the same manner as U.S. tax information: the income tax return required by Puerto Rico, Guam, American Samoa, the U.S. Virgin Islands, the Marshall Islands, the Federated States of Micronesia, or Palau. The amounts on these returns are already reported in U.S. dollars.

Foreign Income

Income earned in a foreign country is treated the same as income earned in the U.S. Convert all figures to U.S. dollars, using the exchange rate in effect on the day you fill out the **FAFSA**. Information about exchange rates can be found in many newspapers or on the Internet, using the key search words "exchange rates."

Include the value of any taxes paid to the foreign government in the "U.S. income tax paid" line item. If income earned in the foreign country was not taxed by the central government of that country, the income should be reported as untaxed income on the **FAFSA**.

In many cases, if you file a return with the IRS for a year in which foreign income was earned, a portion of the foreign income can be excluded on IRS Form 2555 for U.S. tax purposes. The figure reported on line 43 of Form 2555 (or line 18 of Form 2555EZ) should be reported on the "Foreign income exclusion" line on Worksheet B on page 8 of the paper **FAFSA**. The final total for the Form 2555 must not be reported as untaxed income because it contains other exclusions.

Questions 32-39

32. Filing return. Indicate whether you have already completed, are going to complete, or will not file a tax return for 2005.

33. Type of return filed. Indicate which tax form you filed or will file for 2005.

34. Eligible to file a 1040A or 1040EZ. If you (and your spouse) are eligible to file a 1040A or 1040EZ for 2005, indicate your eligibility to file one of these forms (even if you file a 2005 IRS Form 1040). For instance, tax preparers often file a Form 1040 or an electronic 1040 on behalf of a tax filer, even though that person's income and tax filing circumstances would allow him or her to file a 1040A or 1040EZ.

In general, you are eligible to file a 1040A or 1040EZ if you make less than \$50,000, do not itemize deductions, do not receive income from your own business or farm, and do not receive alimony. You are not eligible if you itemize deductions, receive self-employment income or alimony, or are required to file Schedule D for capital gains.

35. Adjusted Gross Income. Provide your (and your spouse's) Adjusted Gross Income (AGI) for 2005. If you have not completed a 2005 tax form, you should calculate your AGI using the instructions from IRS Form 1040. You can get the instructions and the form at a public library or download them in Portable Document Format (PDF) from http://www.irs.gov/forms_pubs/forms.html

TIP: AGI includes more than just wages earned; for example, alimony, taxable portions of Social Security and business income are also included.

36. Income tax. Enter the amount of 2005 income tax you (and your spouse) paid from IRS Form 1040 – line 61; 1040A – line 38; 1040 EZ – line 10; TeleFile or Estimated Tax Liability. Do not copy the amount of federal income tax withheld from a W-2 Form. Do not include any FICA, self-employment, or other taxes. If you did not pay any income tax for 2005, enter zero (0).

37. Exemptions. Enter your (and your spouse's) exemptions for 2005. Exemptions are on IRS Form 1040 — line 6d or 1040A — line 6d. If you answered, "Yes" on 1040EZ — line 5, use EZ worksheet Line F to determine the number of exemptions (\$3,100 equals' one exemption). If you answered "No" on line 5, you should enter "01" if single or "02" if married. On the TeleFile, use line J (2) to determine the number of exemptions (\$3,100 equals' one exemption).

TIP: If you are a dependent student normally your parents will claim you as an exemption. Therefore enter 0 on line 37.

38. Student's income earned. When the Department's processor calculates your EFC, certain allowances are deducted from your (and your spouse's) income for necessary expenses (such as taxes and basic living costs). The income earned from work will be used in the EFC calculation as an income factor when no tax form is filed.

39. Spouse's income earned. Use the instructions from #38, "Student's Income Earned" as the guide to answer this question for your spouse's income. If you are single leave this question blank.

If you filed (or will file) a tax return, you should include your share only from IRS form 1040; 1040A; 1040EZ; TeleFile — use your W-2. Even if you filed a joint return, you must report your and your spouse's earnings separately.

TIP: When completing questions 38 and 39 always include any income that was deferred or invested into a qualified retirement plan i.e. 401-K. Your total income can be found on your W-2 under Social Security Wages. Questions 38 and 39 are deduction questions to your benefit because this is where the FAFSA formula will calculate your state and Social Security taxes, which are deductions against your total income. It is to your best interest to have the answers to questions 38 and 39 as high as possible.

If you did not file a tax return, you should report your earnings from work in 2005. You can find this information on your W-2 Form(s).

Student (and Spouse) Worksheets

Question 40 - Worksheet A

On Worksheet A, you (the student) should fill in the left-hand side.

Earned income credit: Enter the earned income credit from IRS Form 1040 — line 64; 1040A — line 41; 1040EZ — line 8; TeleFile — Line L (2).

Additional child tax credit- Report the amount from IRS Form 1040 — line 66 or 1040A — line 42.

Welfare benefits (including Temporary Assistance for Needy Families - TANF) - Enter the total amount of welfare benefits you (and your spouse) received, including TANF, in 2005. Report the amount you received for the year — not monthly amounts. Do not include food stamps or subsidized housing.

Untaxed Social Security benefits: If Social Security benefits were paid to your parents on your behalf (because you were under 18 years old at the time), those benefits are reported as your parents' income, not your income.

If you, as head of household, receive benefits on behalf of persons included in household size, these benefits must be reported as your income. However, if a member of your household, such as an uncle or grandmother, receives benefits in his or her own name, you do not report those benefits.

The actual amount of benefits received for the year in question must be reported, even if that amount represents an underpayment or an overpayment that may be compensated for in the next year. This parallels the IRS treatment of overpayments of taxable income (such as salary) that must be reported and are taxed as any other income.

Question 41 - Worksheet B

Payments to tax-deferred pension and savings plans. You must report money paid into tax-sheltered or deferred annuities (whether paid directly or withheld from earnings), including amounts reported on the

W-2 Form, in Boxes 12a through 12d, codes D, E, F, G, H, and S. You must include untaxed portions of 401(k) and 403(b) plans. Note that employer contributions to tax-deferred pension and savings plans should not be reported on the FAFSA as an untaxed benefit.

IRA and other plans - Enter the amount of IRA deductions and payments to self-employed SEP, SIMPLE, and Keogh and other qualified plans. These plan payments can be found on IRS 1040 — total of lines 24 + 31 or 1040A — line 17.

Child support received. Report child support you received for all children during 2005. Do not include foster care or adoption payments.

Tax-exempt interest income - Enter the total amount of tax-exempt interest income you (and your spouse) earned in 2005, as reported on Form 1040 — line 8b or 1040A — line 8b.

Foreign income exclusion - The IRS allows eligible U.S. citizens and residents living in foreign countries to exclude a limited amount of income earned abroad. Though deducted for tax purposes, this amount is considered untaxed income for federal student aid purposes. Provide the amount of the foreign income exclusion you (and your spouse) reported for 2005 from Form 2555 — line 43 or 2555EZ — line 18.

Untaxed portions of IRA distributions - This amount can be calculated from IRS Form 1040 (lines 15a minus 15b) or 1040A (lines 11a minus 11b). If the result is a negative number, enter a zero here.

Untaxed portions of pensions - This amount can be calculated from IRS Form 1040 (lines 16a minus 16b) or 1040A (lines 12a minus 12b). If the result is a negative number, enter a zero here.

TIP: The only exception to reporting IRA or pension distributions as income is when these distributions are rolled over to another IRA or retirement plan within 60 days following the day on which you receive the distribution from the initial IRA or retirement plan.

Special fuels credit: Enter the total amount of credit for federal tax on special fuels that you (and your spouse) reported in 2005, from IRS Form 4136 — line 10 (non-farmers only).

Housing allowances. Housing, food, and other living allowances provided to you or your spouse must be reported. This applies to compensation that some people, particularly clergy and military personnel, receive for their jobs. Include cash payments and cash value of benefits. If you received free room and board in 2005 for a job that was not awarded as student financial aid, you must report the value of the room and board as untaxed income. (This category, "housing allowances," excludes rent subsidies for low-income housing.)

Veterans' non-education benefits - Enter the total amount of veterans' non-education benefits you received in 2005. Include Disability, Death Pension, Dependency and Indemnity Compensation (DIC), and/or VA Educational Work-Study allowances.

Other untaxed income and benefits. Include untaxed income or benefits not reported elsewhere on Worksheets A and B, e.g., worker's compensation, untaxed portions of railroad retirement benefits, Black Lung Benefits, Refugee Assistance, etc. Do not include benefits from flexible spending arrangements (e.g., cafeteria plans), student aid, or Workforce Investment Act (WIA) (formerly JTPA) educational benefits.

Cash received. Any cash support you receive from a friend or relative (other than your parents, if you are a

dependent student) must be reported. Cash support includes payments made on your behalf. For instance, if your aunt pays your rent, utility bill, car payments, or buys you a car you must report those payments on Worksheet B.

Certain income and benefits should not be reported on Worksheets A and B:

Student financial aid - Student aid received is already taken into account when a school packages your aid. However, work-study earnings must be reported as taxed income in Step Two and then excluded (on Worksheet C).

Food stamps and other programs: Benefits received from federal, state, or local governments from the following programs are not counted as untaxed income: the Food Stamp Program; Women, Infants, and Children Program; Food Distribution Program; Commodity Supplemental Food Program; National School Lunch and School Breakfast Programs; Summer Food Service Program; and Special Milk Program for Children.

Dependent Assistance: You may be eligible to exclude a limited amount of benefits received for dependent care assistance if certain requirements are met. Generally, up to \$5,000 of benefits may be excluded from an employee's gross income or \$2,500 for a married employee who files a separate return from his or her spouse. This exclusion cannot exceed the employee's (or his or her spouse's) earned income. (Note: Some states provide reimbursement for childcare expenses incurred by welfare recipients through TANF. You must report this on the application because you bill the state for the amount of childcare costs incurred while on welfare and are reimbursed on that basis.)

Per capita payments to Native Americans - You should not report individual per capita payments received in 2004 from the Per Capita Act or the Distribution of Judgment Funds Act unless any individual payment exceeds \$2,000. Thus, if an individual payment were \$1,500, you would not report it on your application. However, if a payment were \$2,500, you would report the amount that exceeds \$2,000: \$500.

Heating/fuel assistance - Exclude from consideration as income or resources any payments or allowances received under the Low-Income Home Energy Assistance Act (LIHEA). (Note: Payments under the LIHEA are made through state programs that may have different names.)

Question 42 - Worksheet C

Exclusions from taxed income - Because the items listed in this worksheet will be excluded from income when the Department's processor performs the EFC calculation, you should not subtract them from your responses to the income questions in Step Two. These amounts should be calculated on the basis of what was received between January 1, 2005 and December 31, 2005 and not what was received during the school year.

Education credits. The Hope and Lifetime Learning tax credits benefit students or parents who pay tuition and related expenses for attendance at least half time in a degree-granting program. These tax credits are subtracted directly from the total federal tax on a tax return. Enter the total amount of Hope and Lifetime Learning credits you received in 2005, from Form 1040 — line 48; 1040A — line 31. For more information about these tax credits, visit the IRS website.

Child support payments - Report any child support payments paid during 2005 by you (or your spouse)

because of divorce or separation. Do not include support for children in your household, as reported in the "number in household" question on the FAFSA. For purposes of the FAFSA, a child is a member of your household if you provide more than half of the child's support, whether the child lives with you or not.

Taxable earnings from work-study or other need-based work programs: You should report earnings from work as income in Step Two of the FAFSA. However, if those earnings are part of a financial aid package and are intended as need-based financial assistance, you should also report them on Worksheet C as an exclusion from income.

Student grants and other awards - Report any student grant, scholarship, or fellowship aid, including AmeriCorps awards, that was reported to the IRS in your AGI.

Questions 43-47

Asset Information

An asset is defined as property that has an exchange value. The purpose of collecting asset information is to determine whether your family's assets are substantial enough to support a contribution toward your cost of attendance (COA). Only the net asset value is counted in the need analysis; that is, any debts against assets are subtracted from the asset value.

Ownership of an Asset

Ownership of an asset may be divided or contested in several situations:

- **Part ownership of asset.** If you (or your spouse) have only part ownership of an asset, you (or your spouse) should report only that part. Generally, the value of an asset and debts against it should be divided equally by the number of people who share ownership, unless the share of the asset is determined by the amount invested or the terms of the ownership arrangement.
- **Contested ownership.** An asset should not be reported if its ownership is being legally contested. For instance, if you and your spouse are separated and you may not sell or borrow against jointly owned property that is being contested, the FAFSA information you report would not list any value for the property or any debts against it. If ownership of the asset is resolved after the initial application is filed, you may not update this information. However, if ownership of the property were not being contested, you would report the property as an asset.
- **Lien against asset.** If there were a lien or imminent foreclosure against an asset, the asset would still be reported on the FAFSA until the party holding the lien or making the foreclosure completes legal action to take possession of the asset.

Assets that Are Not Reported

Examples of assets that are not reported include the following:

Principal place of residence/family farm - Your principal place of residence is not reported as an asset. Neither is your family farm if the farm is your principal place of residence and your family claimed on

Schedule F of the tax return that it "materially participated in the farm's operation."

Personal possession - Do not report possessions such as a car, a stereo, clothes, annuity contracts, Life Insurance Policy cash value, money accumulated in a qualified retirement account or furniture. By the same token, personal debts such as credit card debt cannot be reported.

Investments

Rental properties - Generally, rental properties must be reported as investment assets rather than as business assets. To be reported as a business, a rental property would have to be part of a formally recognized business. (Usually such a business would provide additional services, such as regular cleaning, linen, or maid service.)

"Take-back" mortgages - In a "take-back" mortgage, the seller takes back a portion of the mortgage from the buyer and arranges for the buyer to repay that portion of the mortgage to the seller. For IRS purposes, the seller must report the interest portion of any payments received from the buyer on Schedule B of IRS Form 1040. If an amount is reported on this line of the tax return, the family probably has an asset that should be reported on the FAFSA.

Trust funds and tuition prepayment plans - If trust funds are in your (or your spouse's) name, they should be reported as your (or your spouse's) asset on the application. In the case of divorce or separation, where the trust is owned jointly and ownership is not being contested, the property and the debt are equally divided between the owners for reporting purposes, unless the terms of the trust specify some other method of division.

How the trust must be reported varies according to whether you (or your spouse) receive or will receive the interest income, the trust principal, or both. If you (or your spouse) receive only interest from the trust, any interest received in the base year must be reported as income. Even if interest accumulates in the trust and is not paid out during the year, if you will receive the interest, you must report an asset value for the interest you will receive in the future. The trust officer can usually calculate the present value of the interest you will receive while the trust exists. This value represents the amount a third person would be willing to pay to receive the interest income you (or your spouse) will receive from the trust in the future.

The present value of the principal is the amount a third person would pay at present for the right to receive the principal when the trust ends (basically, the amount you would have to deposit now to receive the amount of the principal when the trust ends, including the accumulated interest). Again, the trust officer can calculate present value.

As a general rule, you must report the present value of the trust as an asset, even if your (the beneficiary's) access to the trust is restricted. If the creator of a trust has voluntarily placed restrictions on the use of the trust, then you should report the trust in the same manner as if there were no restrictions. However, if a trust has been restricted by court order, you should not report it as an asset. An example of such a restricted trust is one set up by court order to pay for future surgery for the victim of a car accident.

Note: *That the value of a prepaid tuition plan is excluded from being reported as an asset. (The annual value of the tuition prepayment will be taken into account when the school packages your aid and will reduce your financial need.)*

TIP: New 529 savings plan assets will be reported as an asset of the parent – if another person owns the 529 savings plan, other than the parent or student, the accumulated value of the plan **will not** be counted as an asset on the FAFSA.

Questions 43-47

43. Total current cash, savings, and checking account balance - Include the balance of checking or savings accounts as of the date the FAFSA is signed unless you (and your spouse) do not have access to the money because the state declared a bank emergency due to the insolvency of a private deposit insurance fund. Do not include student financial aid.

44. Net worth of investments - Investments include real estate such as rental property, land, and second or summer homes. Do not include your primary place of residence (that is, your home). Include the value of portions of multifamily dwellings that are not your principal residence. Investments also include trust funds, money market funds, mutual funds, certificates of deposit, stocks, stock options, bonds, other securities, Education IRAs in your name, installment and land sale contracts (including mortgages held), commodities, etc. Do not include the value of life insurance and retirement plans (pension funds, annuities, non-Education IRAs, Keogh plans, etc.)

The money in an Education IRA is an asset for the student beneficiary because an Education IRA is not a retirement account. It is essentially a savings account to be used for the student's educational expenses. Therefore, you must report the amount in your Educational IRA with your investments.

Investment Value - Investment Debt = **Net Worth of Investments**

If you (and your spouse) own real estate or investments other than your principal residence, their value equals the amount they are worth today.

Investment debt equals how much you (and/or your spouse) owe on real estate and investments other than your principal residence. Investment debt means only those debts that are related to the investments.

Subtract the amount of debt on these assets from their value. Indicate this amount in your net worth of investments.

45. Net worth of business and/or investment farm - Business or farm value includes the current market value of land, buildings, machinery, equipment, inventory, etc. Do not include your primary home.

Business/Farm Value - Business/Farm Debt = Net Worth of Business/Farm

For business or investment farm value, first figure out how much the business or farm is worth today.

Business or investment farm debts are what you (and/or your spouse) owe on the business or farm. Include only debts for which the business or farm was used as collateral.

Subtract the amount of debt from the value. Write in this amount for net worth of business and/or investment farm.

To report current market value for a business, you must use the amount for which the business could sell as of the date of the application. Also, if you are not the sole owner of the business, you should report only your share of its value and debt.

46. Number of month's veteran's education benefits received - Enter the number of months from July 1, 2004 to June 30, 2005 you expect to receive veteran's education benefits. If you do not receive veteran's education benefits, enter zero (0).

47. Amount of veteran's education benefits – Veteran's education benefits information is not used in the EFC calculation; your school will use it when putting together your aid package. If you receive veteran's education benefits, you must report the amount of monthly benefits that you expect to receive during the school year (from July 1, 2006 through June 30, 2007). Such benefits include, but are not limited to:

- Montgomery GI Bill - Active Duty (MGIB)
- Reserve Officer Training Corps (ROTC) scholarship
- Veterans Educational Assistance Program (VEAP)
- Dependents' Educational Assistance Program (DEA)
- Do not include your spouse's veteran's education benefits.

STEP 3

Purpose: The questions in Step Three are used to determine, according to law, whether you are a dependent or an independent student for purposes of calculating an EFC. If you answer "No" to all of the questions in Step Three, you are a dependent student, even if you do not live with your parents. A Financial Aid Administrator (FAA) may make an otherwise dependent student independent in individual cases if he or she determines that such an action is appropriate. The FAA's decision is final and cannot be appealed to the U.S. Department of Education.

A dependent student moves on to Step Four from Step Three, providing information about his or her parents in the purple areas of the FAFSA. An independent student skips Step Four and continues with Step Five.

Answer all of the questions in this step.

48. Were you born before January 1, 1983? Note that if you were born on January 1, 1983, you should answer "No."

49. Will you be working on a master's or doctorate program (an MA, MBA, MD, JD, Ph.D., EdD, graduate certificate, etc.) in school year 2006-07? You should answer "Yes" if you will be enrolled in a master's or doctorate program in the first term you attend in 2006-07. If you will be finishing your bachelor's degree and moving on to a higher program during the school year, notify your FAA.

A graduate or professional student is not eligible for a Federal Pell Grant, so if you incorrectly report that you are a graduate or professional student, you will need to correct this answer to receive a Federal Pell Grant.

50. as of today, are you married? Answer "Yes" if you are legally married on the date you sign the application. "Married" does not mean living together unless your state recognizes your relationship as common-law marriage. Answer, "Yes" if you are separated but not divorced.

51. Do you have children who receive more than half of their support from you? "Support" means financial support. An applicant whose unborn child will be born before the end of the award year can

answer "Yes."

TIP: The financial support is the issue here; it does not matter whether the child lives with you.

52. Do you have dependents (other than your children or spouse) who live with you and who receive more than half of their support from you, now and through June 30, 2007? Again, the FAFSA is asking about financial support. In this question, the people supported must live with you.

53. Are both your parents deceased, or are you or were you (until age 18) a ward/dependent of the court? You should answer "Yes" if you are currently a ward of the court or were a ward of the court until age 18, or both your parents are dead and you do not have an adoptive parent. If your parents are dead, but you have a legal guardian, you are considered to be an orphan for purposes of completing the FAFSA.

You are not considered a ward of the court based solely on being incarcerated.

54. Are you a veteran of the U.S. Armed Forces? You should answer "Yes" if

- You have engaged in active duty in the U.S. Armed Forces (Army, Navy, Air Force, Marine Corps, or Coast Guard), or you were a member of the National Guard or Reserves who was called to active duty for purposes other than training, or you were a cadet or midshipman at one of the service academies, and
- You were released under a condition other than dishonorable.

You should also answer, "Yes" if you are not a veteran now but will be one by June 30, 2007.

You should answer "No" (you are not a veteran) if

- You have never engaged in active duty in the U.S. Armed Forces,
- You are currently an ROTC student or a cadet or midshipman at a service academy, or
- You are a National Guard or Reserves enlistee activated only for training.

You should also answer "**No**" if you are currently serving in the U.S. Armed Forces and will continue to serve through June 30, 2006.

If you answered, "Yes" to any of the questions in Step Three, you should now skip Step Four and go to **Step Five**. If you answered "**No**" to every one of these questions, continue with **Step Four**.

In Step Four we will be reviewing the portion of the FAFSA that pertains to the parents' information. Many of the questions asked are similar to the questions that were asked of the student (Steps One to Step Three). Since most of the financial support of the student comes from the parents, the next few Steps are very important when it comes to receiving financial aid for the student.

COMPLETING THE 2006-2007 FAFSA (PARENTS') QUESTIONS

STEP 4

Purpose: Your parents must provide financial information in Step Four if you are a dependent student (i.e. if you answered "No" to every question in Step Three). The EFC calculation determined by congressional formula uses information from this part to determine whether your parents have any discretionary income. If they have discretionary income, a portion, and only a portion, of that income is included in the EFC as available for your educational costs.

Questions 55-69

Who is considered a Parent in This Step?

The term "parent" is not restricted to biological parents. There are instances in which a person other than a biological parent is treated as a parent, and in these instances, the parental questions on the application must be answered as they apply to such an individual (or individuals).

If your parents are both living and married to each other, answer the questions about both of them.

If your parents are living together and have not been formally married but meet the criteria in their state for a common-law marriage, they should report their status as married on the application. If the state does not consider their situation to be a common-law marriage, then you should follow the rules for divorced parents. Check with the appropriate state agency concerning the definition of a common-law marriage.

An adoptive parent is treated in the same manner as a biological parent.

TIP: Neither a foster parent nor a legal guardian is treated as a parent for purposes of filing a FAFSA.

If one, but not both, of your parents have died, you should answer the parental questions about the surviving parent. Do not report any financial information for the deceased parent on the FAFSA. If the surviving parent dies after the FAFSA has been filed, you must submit a correction to Question 53 in Step Three, thus updating your dependency status to independent, and correct all other information as appropriate (i.e., you will no longer fill out Step Four). If the surviving parent is remarried as of the date you complete the FAFSA, answer the questions about both that parent and the person he or she married (your stepparent).

If your parents are legally separated, the same rules as for a divorce are used to determine which parent's information must be reported. A couple does not have to be legally separated for purposes of the FAFSA. The couple may consider themselves informally separated when one of the partners has left the household for an indefinite period of time. If the partners live together, they can't be considered informally separated. However, in some states, a couple can be considered legally separated even if they still live together. If the couple's state allows this, and they are legally separated, then they are considered separated for purposes of the FAFSA.

A stepparent is treated in the same manner as a biological parent if the stepparent is married, as of the date of application, to the biological parent whose information will be reported on the FAFSA, or if the stepparent has legally adopted you. There are no exceptions. Prenuptial agreements do not exempt the stepparent from providing required data on the FAFSA. **Note:** that the stepparent's income information for the entire base year, 2005, must be reported even if your parent and stepparent were not married until after 2005.

55. Parents' marital status as of today. The FAFSA asks about parents' marital status because their marital status directly affects the treatment of income and assets in the EFC calculation. Your parent(s) must report their marital status as of the date the application is completed.

Enter "**married**" if your parents are currently married. If you give information about your mother and stepfather, you would enter "married" because your mother and stepfather are married. If your parents are living together and have not been formally married but meet the criteria in their state for a common-law marriage, they should report their status as married on the application. If the state does not consider the situation to be a common-law marriage, then file the FAFSA as if they are separated. Check with the appropriate state agency concerning the definition of a common-law marriage.

56. Month and year your parents were married, separated, divorced, or widowed. **Note:** This question was added to the 2006-2007 FAFSA in order to flag problems that have occurred in the past by parents that tried to falsify their marital status.

57. Father's/stepfather's Social Security Number. Enter your father or stepfather's Social Security Number (SSN) (that is, enter the information for the same person whose financial information you are reporting). The Privacy Act Statement gives information about how his SSN can be used.

58. Father's/stepfather's last name. Enter your father or stepfather's last name (that is, enter the information for the same person (in #57) whose financial information you are reporting). Use the name found on his Social Security card. Your father or stepfather's SSN and last name on the application must match the number and name on his Social Security card. For information on how to update or correct the name on his Social Security card, he can call the Social Security Administration (SSA) at 800-772-1213 or go to the SSA's web site at www.ssa.gov

59. Father's/stepfather's first initial of name. Enter your father's or stepfather's first initial of their name.

60. Father's/stepfather's date of birth. Enter your father or stepfather's date of birth.

61. Mother's/stepmother's Social Security Number. Enter your mother or stepmother's Social Security Number (SSN) (i.e., enter the information for the same person whose financial information you are reporting). The Privacy Act Statement gives information about how her SSN can be used.

62. Mother's/stepmother's last name. Enter your mother or stepmother's last name (that is, enter the information for the same person (in #61) whose financial information you are reporting). Use the name found on her Social Security card. Your mother or stepmother's SSN and last name on the application must match the number and name on her Social Security card. For information on how to update or correct the name on her Social Security card, she can call the SSA at 800-772-1213 or go to their web site at www.ssa.gov

63. Mother's/stepmother's first initial of name. Enter your mother's or stepmother's first initial of their name.

64. Mother's/stepmother's date of birth. Enter your mother's or stepmother's date of birth.

65. Number in parents' household. The number of family members reported determines the "income protection allowance" that will be subtracted from your family's income in the EFC calculation. This allowance accounts for basic living expenses.

The following persons are included in your parents' household size:

- You (the student), even if you do not live with your parents.
- Your parents (the ones whose information is reported on the FAFSA).
- Your parents' other children, if your parents will provide more than half of their financial support from July 1, 2006 through June 30, 2007 or if they could answer "No" to every question in Step Three.
- Your parents' unborn child, if that child will be born before July 1, 2006 and your parents will provide more than half of the child's financial support through the end of the award year (June 30, 2007).
- Other people (including your children and/or your unborn child due before July 1, 2007), if they live with and receive more than half of their financial support from your parents at the time of filing the application and will continue to receive that support from July 1, 2006 through June 30, 2007.

To determine whether to include children in the household size, the "support" test is used (rather than a residency requirement) because there may be situations in which a parent supports a child who does not live with him or her, especially in cases where the parent is divorced or separated. In such cases, the parent who provides more than half of the child's support may claim the child in his or her household size. It does not matter which parent claims the child as a dependent for tax purposes. If your parent receives benefits (such as Social Security or AFDC payments) in the child's name, these benefits must be counted as parental support to the child.

Support includes money, gifts, loans, housing, food, clothes, car payments or expenses, medical and dental care, and payment of college costs.

66. Number of college students in parents' household. This question asks about the number of household members who, in 2006-07, are or will be enrolled in a postsecondary school. Count yourself as a college student. Do not include your parents. Include others only if they will be attending at least half time in a program that leads to a degree or certificate at a postsecondary school eligible to participate in any of the Federal Student Aid Programs.

The number of family members in college directly affects your family's ability to contribute to your educational costs. The Family's Expected Contribution (EFC) is divided by the number of family members in college, which will increase the financial aid eligibility of each student that is a qualified student.

TIP: Parents that are attending college are **NOT QUALIFIED STUDENTS** and should not be counted.

67. State of legal residence. Indicate the two-letter abbreviation for your parents' current state of residence. Your parent's residence is their true, fixed, and permanent home. If your parents are separated or divorced, use the state of legal residence for the parent whose information is reported on the form. Use the State Abbreviations list to provide the abbreviation for your parent's state of legal residence. If your parents live in a foreign country, enter "FC" in the state abbreviation space.

68. Legal resident before 2001. States have varying criteria for determining whether you are a resident for purposes of state financial aid. However, if you established a true, fixed, and permanent home in any state more than four years ago, you will meet the state's criteria. Select "Yes" if your parents became residents of their state before January 1, 2001 or "No" if your parents became residents of their state on or after January 1, 2001.

69. Date of legal residence. If your parents did not become legal residents of their state before January 1, 2001, provide the month and year legal residency began for the parent who has lived in the state the longest.

Questions 70-80

70. Filing return. Indicate whether your parents have already completed, are going to complete, or will not file a tax return for 2005.

71. Type of return filed. Indicate which tax form your parents filed or will file for 2005.

72. Eligible to file a 1040A or 1040EZ. If your parents are eligible to file a 1040A or 1040EZ for 2005, make sure you indicate their eligibility to file one of these forms (even if they file a 2005 IRS Form 1040). Tax preparers often file a Form 1040 or an electronic 1040 on behalf of a tax filer, even though that person's income and tax filing circumstances would allow him or her to file a 1040A or 1040EZ.

In general, a person is eligible to file a 1040A or 1040EZ if he or she makes less than \$50,000, does not itemize deductions, does not receive income from his or her own business or farm, and does not receive alimony. A person is not eligible if he or she itemizes deductions, receives self-employment income or alimony, or is required to file Schedule D for capital gains.

TIP: This question relates to what is called Simplified Need Testing. If you meet the above requirements the formula will not take into consideration the assets of the parents when calculating the parent's contribution.

How do we complete the income tax section?

It is best if your parents fill out their income tax return(s) before filling out this application. However, if your parents have not completed their income tax return(s), they should calculate their Adjusted Gross Income (AGI) and taxes paid using the instructions for IRS Form 1040. You can get the instructions and

the form at a public library, your local post office, or download them in Portable Document Format (PDF) from http://www.irs.gov/forms_pubs/forms.html

Even if your parents are not required to file a 2005 income tax return, they will need to calculate their earnings for the year. They should use W-2 Forms and other records to answer the questions in this section.

If an answer is zero or a question does not apply to your parents, enter 0 (zero). For the 2006-07 FAFSA, the "base year" for completing income tax questions is 2005. Income tax questions give 2005 IRS tax form line references.

Information from one of the following 2005 income tax forms may be listed on the FAFSA in the same manner as U.S. tax information: the income tax return required by Puerto Rico, Guam, American Samoa, the U.S. Virgin Islands, the Marshall Islands, the Federated States of Micronesia, or Palau. The amounts on these returns are already reported in U.S. dollars.

What if my parents earned foreign income?

Income earned in a foreign country is treated in the same way as income earned in the U.S. Convert all figures to U.S. dollars, using the exchange rate in effect on the day you fill out the FAFSA. Information about exchange rates can be found in many newspapers or on the Internet, using the key search words "exchange rates."

Your parents should also include the value of any taxes paid to the foreign government in the "U.S. income tax paid" line item. (If the income earned in the foreign country was not taxed by the central government of that country, the income should be reported as untaxed income.)

In many cases, if your parents file a return with the IRS for a year in which foreign income was earned, a portion of the foreign income can be excluded on IRS Form 2555 for U.S. tax purposes. The figure reported on line 43 of Form 2555 (or line 18 of Form 2555EZ) should be reported on the "Foreign income exclusions" line on Worksheet B on page 8 of the paper FAFSA. The final total for Form 2555 must not be reported as untaxed income because it contains other exclusions.

73. Adjusted Gross Income. Your parents must provide their Adjusted Gross Income (AGI) for 2005. AGI is found on IRS 1040 — line 35; 1040A — line 21; 1040EZ — line 4; or TeleFile — line I. If your parents have not completed a 2005-tax form, they should calculate their AGI using the instructions for IRS Form 1040. They can get the instructions and the form at a public library, your local post office, or download them in Portable Document Format (PDF) from http://www.irs.gov/forms_pubs/forms.html

TIP: AGI includes more than just wages earned; for example, alimony, taxable portions of Social Security, and business income or losses are also included.

74. Income tax. Enter the amount of 2005 income tax your parents **paid** from IRS 1040 — line 61; 1040A — line 38; 1040EZ — line 10; or TeleFile — line K (2). Do not copy the amount of federal income tax withheld from a W-2 Form.

75. Exemptions. Enter your parents' exemptions for 2005. Exemptions are on IRS Form 1040 — line 6d or 1040A — line 6d. If your parents answered, "Yes" on 1040EZ — line 5, use EZ worksheet Line F to determine the number of exemptions (\$3,100 equal's one exemption). If your parents answered "No" on line 5, they should enter "01" if single or "02" if married. On the TeleFile, your parents should use line J

(2) to determine the number of exemptions (\$3,100 equal's one exemption).

If your parent is divorced, separated, or widowed, but he or she has filed or will file a joint tax return for 2005, he or she should give only his or her portion of the exemptions.

76. Father's/stepfather's income earned. When the Department's processor calculates your parents' EFC, certain allowances are deducted from your parents' income for required and necessary expenses (such as taxes and basic living costs). Your parents' income earned from work will be used in the EFC calculation as an income factor when no tax form is filed.

77. Mother's/stepmother's income earned. Use the instructions from Question 76 ("Father's/Stepfather's Income Earned") to answer this question, reporting your mother's income this time.

If your parents filed (or will file) a 2005 tax return, each should include only his or her share from IRS Form 1040 - lines 7 + 12 + 18; 1040A - line 7; 1040EZ - line 1; TeleFile (or no return filed) - use the amount from the parent's W-2. Even if your parents filed a joint return, report each parent's earnings separately in Questions 76 and 77.

VERY IMPORTANT TIP: It is **BEST** to use the parents' W-2 when answering questions 76-77. Normally parents contribute from their wages into a 401-K retirement plan or other qualified plans i.e. 403-B. The questions 76 and 77 are deduction questions in favor of the parents. This is where the FAFSA formula will calculate the state and social security tax that is paid on the parents' total earned income from work. Just like federal income taxes the formula will also deduct state and social security taxes away from the available income of the parents, thus increasing the aid eligibility of the student. To find the right income to put in questions 76 and 77, use the social security wages on each parents' W-2 form. Qualified retirement plan contributions do not have federal or state income taxes withheld from the contributions. But social security taxes are withheld.

Parent Worksheets

On the worksheets, your parents should fill in the right-hand side.

Question 78 - Worksheet A

Earned income credit - Enter the earned income credit from your parents' IRS Form 1040 — line 64; 1040A — line 41; 1040EZ — line 8; TeleFile — line L (2).

Additional child tax credit - Report the amount from your parents' IRS Form 1040 — line 66 or 1040A — line 42.

Welfare benefits (including Temporary Assistance for Needy Families [TANF]) - Enter the total amount of welfare benefits your parents received, including TANF, in 2005. Report the amount they received for the year — not monthly amounts. Do not include food stamps or subsidized housing.

Untaxed Social Security benefits - If Social Security benefits were paid to your parents on your behalf (because you were under 18 years old at the time), those benefits are reported as your parents' income, not your income.

Your parents must report benefits received on behalf of persons included in their household size as their income. However, if a member of your parents' household, such as an uncle or grandmother, receives benefits in his or her own name, your parents do not report those benefits.

The actual amount of benefits received for the year in question must be reported, even if that amount represents an underpayment or an overpayment that may be compensated for in the next year. This parallels the IRS treatment of overpayments of taxable income (such as salary) that must be reported and are taxed as any other income.

Question 79 - Worksheet B

Payments to tax-deferred pension and savings plans. Your parents must report money paid into tax-sheltered or deferred annuities (whether paid directly or withheld from earnings), including amounts reported on the W-2 Form, in Boxes 12a through 12d, codes D, E, F, G, H, and S. They must include untaxed portions of their 401(k) and 403(b) plans.

TIP: Employer contributions to tax- deferred pension and savings plans should not be reported on the FAFSA as an untaxed benefit.

IRA and other plans- enter the amount of IRA deductions and payments to self-employed SEP, SIMPLE, and Keogh and other qualified plans. These plan payments can be found on IRS 1040 — total of lines 24 + 31 or 1040A — line 17.

Child support received- Report child support your parents received for all children during 2005. Do not include foster care or adoption payments.

Tax-exempt interest income- Enter the total amount of tax-exempt interest income your parents earned in 2005, as reported on Form 1040 — line 8b or 1040A — line 8b.

Foreign income exclusion- the IRS allows eligible U.S. citizens and residents living in foreign countries to exclude a limited amount of income earned abroad. Though deducted for tax purposes, this amount is considered untaxed income for federal student aid purposes. Provide the total amount of the foreign income exclusion your parents reported for 2005 from Form 2555 — line 43 or Form 2555EZ — line 18.

Untaxed portions of IRA distributions - this amount can be calculated from IRS Form 1040 (lines 15a minus 15b) or 1040A (lines 11a minus 11b). If the result is a negative number, enter zero.

Untaxed portions of pensions - this amount can be calculated from IRS Form 1040 (line 16a minus 16b) or 1040A (line 12a minus 12b). If the result is a negative number, enter zero.

TIP: The only exception to reporting IRA or pension distributions as income is when these distributions are rolled over to another IRA or retirement plan within 60 days following the day on which your parents receive the distribution from the initial IRA or retirement plan.

Special fuels credit- Enter the total amount of credit for federal tax on special fuels your parents reported in 2005, from IRS Form 4136 — line 10 (non-farmers only).

Housing allowances- Housing, food, and other living allowances provided to your parents must be

reported. This applies to compensation that some people, particularly clergy and military personnel, receive for their jobs. Include cash payments and cash value of benefits. If your parents received free room and board in 2005 for a job that was not awarded as student financial aid, they must report the value of the room and board as untaxed income. (This category, "housing allowances," excludes rent subsidies for low-income housing.)

Veteran's non-education benefits- Enter the total amount of veterans non-education benefits your parents received in 2005. Include Disability, Death Pension, Dependency & Indemnity Compensation (DIC), and/or VA Educational Work-Study allowances.

Other untaxed income and benefits- Your parents should include untaxed income or benefits not reported elsewhere on Worksheets A and B, e.g., worker's compensation, untaxed portions of railroad retirement benefits, Black Lung Benefits, Refugee Assistance, etc. Do not include benefits from flexible spending arrangements (e.g., cafeteria plans, student aid, or Workforce Investment Act (WIA) (formerly JTPA) educational benefits).

Cash received - Your parents should not report anything for this item.

Certain income and benefits should not be reported on Worksheets A and B:

Food stamps and other programs:

- Benefits received from federal, state, or local governments from the following programs are not counted as untaxed income: the Food Stamp Program; Women, Infants, and Children Program; Food Distribution Program; Commodity Supplemental Food Program; National School Lunch and School Breakfast Programs; Summer Food Service Program; and Special Milk Program for Children.
- ***Dependent Assistance.*** Your parents may be eligible to exclude a limited amount of benefits received for dependent care assistance if certain requirements are met. Generally, up to \$5,000 of benefits may be excluded from an employee's gross income or \$2,500 for a married employee who files a separate return from his or her spouse. This exclusion cannot exceed the employee's (or his or her spouse's) earned income. (**Note:** Some states provide reimbursement for childcare expenses incurred by welfare recipients through TANF. Your parents must report this on the application because they bill the state for the amount of childcare costs incurred while on welfare and are reimbursed on that basis.)
- ***Per capita payments to Native Americans***- Your parents should not report individual per capita payments received in 2005 from the Per Capita Act or the Distribution of Judgment Funds Act unless any individual payment exceeds \$2,000. Thus, if an individual payment were \$1,500, they would not report it on an application. However, if a payment were \$2,500, they would report the amount that exceeds \$2,000: \$500.
- ***Heating/fuel assistance***- Exclude from consideration as income or resources any payments or allowances received under the Low-Income Home Energy Assistance Act (LIHEA). (**Note:** Payments under the LIHEA are made through state programs that may have different names.)

Question 80 - Worksheet C

Exclusions from taxed income: the items listed in this worksheet will be excluded from income when the Department's processor performs the EFC calculation and the parents should not subtract them from their responses to the income questions in Step Four. These amounts should be calculated on the basis of what was received between January 1, 2005 and December 31, 2005 and not what was received during the school year.

Education credits: The Hope and Lifetime Learning tax credits benefit students or parents who pay tuition and related expenses for attendance at least half time in a degree-granting program. These credits are subtracted directly from the total federal tax on a tax return. Enter the total amount of Hope and Lifetime Learning credits your parents received in 2005, from Form 1040 — line 48; 1040A — line 31. For more information about these tax credits, visit the [IRS web site](#).

Child support payments: - report any child support payments your parent(s) paid during 2005 because of divorce or separation. Do not include support for children in your parents' household, as reported in the "number in household" question on the FAFSA (Question 65 for dependent students). For purposes of the FAFSA, a child is a member of your parents' household if your parents provide more than half of the child's support, whether the child lives with them or not.

Taxable earnings from work-study or other need-based work programs: Report earnings from work as income in Step Four. However, if those earnings are part of a financial aid package and are intended as need-based financial assistance, they are also reported on Worksheet C as an exclusion from income.

Student grants and other awards - your parents should report any student grant, scholarship, or fellowship aid, including AmeriCorps awards that were reported to the IRS in their AGI.

Questions 81-83

Asset Information

An asset is defined as property that has an exchange value. The purpose of collecting asset information is to determine whether your family's assets are substantial enough to support a contribution toward your cost of attendance (COA). Only the net asset value is counted in the need analysis; that is, any debts against assets are subtracted from the asset value.

Ownership of an Asset

Ownership of an asset may be divided or contested in several situations:

- **Part ownership of asset.** If your parents have only part ownership of an asset, they should report only that part. Generally, the value of an asset and debts against it should be divided equally by the number of people who share ownership, unless the share of the asset is determined by the amount invested or the terms of the ownership arrangement.
- **Contested ownership.** An asset should not be reported if its ownership is being legally contested. For instance, if your parents are separated and they may not sell or borrow against jointly owned property that is being contested, the FAFSA information they report would not list any value for the property or any debts against it. If ownership of the asset is resolved after the initial application

is filed, they may not update this information. However, if ownership of the property were not being contested, they would report the property as an asset.

- **Lien against asset.** If there were a lien or imminent foreclosure against an asset, the asset would still be reported on the FAFSA until the party holding the lien or making the foreclosure completes legal action to take possession of the asset.

Assets That Are Not Reported

Below are examples of assets that are not reported:

- **Principal place of residence/family farm-** your parents' principal place of residence is not reported as an asset. Neither is their family farm if the farm is their principal place of residence and your family claimed on Schedule F of the tax return that it "materially participated in the farm's operation."
- **Personal possessions-** do not report possessions such as a car, a stereo, clothes, life insurance cash value, annuities or furniture. By the same token, personal debts such as credit card debt cannot be reported.

Investments

TIP: Pay attention to the words **AS OF TODAY** in the questions

Rental properties- Generally, rental properties must be reported as investment assets rather than as business assets. To be reported as a business, a rental property would have to be part of a formally recognized business. (Usually such a business would provide additional services, such as regular cleaning, linen, or maid service.)

"Take-back" mortgages- in a "take-back" mortgage, the seller takes back a portion of the mortgage from the buyer and arranges for the buyer to repay that portion of the mortgage to the seller. For IRS purposes, the seller must report the interest portion of any payments received from the buyer on Schedule B of IRS Form 1040. If an amount is reported on this line of the tax return, the family probably has an asset that should be reported on the FAFSA.

Trust funds and tuition prepayment plans - if trust funds are in your parents' names they should be reported as their asset on the application. In the case of divorce or separation, where the trust is owned jointly and ownership is not being contested, the property and the debt are equally divided between the owners for reporting purposes, unless the terms of the trust specify some other method of division.

How the trust must be reported varies according to whether your parents receive or will receive the interest income, the trust principal, or both. If your parents receive only interest from the trust, any interest received in the base year must be reported as income. Even if interest accumulates in the trust and is not paid out during the year, if your parents will receive the interest, they must report an asset value for the interest you will receive in the future. The trust officer can usually calculate the present value of interest they will receive while the trust exists. This value represents the amount a third person would be willing to pay to receive the interest income your parents will receive from the trust in the future.

The present value of the principal is the amount a third person would pay at present for the right to receive the principal when the trust ends (basically, the amount that one would have to deposit now to receive the amount of the principal when the trust ends, including the accumulated interest). Again, the trust officer can calculate present value.

As a general rule, your parents must report the present value of the trust as an asset, even if their access to the trust is restricted as beneficiary/beneficiaries. If the creator of a trust has voluntarily placed restrictions on the use of the trust, then they should report the trust in the same manner as if there were no restrictions. However, if a trust has been restricted by court order, they should not report it as an asset. An example of such a restricted trust is one set up by court order to pay for future surgery for the victim of a car accident.

***TIP:** the value of a prepaid tuition plan is excluded from being reported as an asset.*

***TIP:** New 529 savings plan assets will be reported as an asset of the parent – if another person owns the 529 savings plan, other than the parent or student, the accumulated value of the plan will not be counted as an asset on the FAFSA.*

81. Total current cash, savings, and checking account balance. Include the balance of checking or savings accounts as of the date the FAFSA is signed unless your parents do not have access to the money because the state declared a bank emergency due to the insolvency of a private deposit insurance fund.

82. Net worth of investments. Investments include real estate such as rental property, land, and second or summer homes. Do not include your parents' home. Include the value of portions of multifamily dwellings that are not your parents' principal residence. Investments also include trust funds, money market funds, mutual funds, certificates of deposit, stocks, stock options, bonds, other securities, Education IRAs in your parents' names, installment and land sale contracts (including mortgages held), commodities, etc. Do not include the value of life insurance and retirement plans (pension funds, annuities, non-Education IRAs, Keogh plans, etc.).

The money in an Education IRA is an asset for the student beneficiary because an Education IRA is not a retirement account. It is essentially a savings account to be used for a student's educational expenses. Therefore, you must report the amount in an Education IRA with the student beneficiary's investments. If your parents have Education IRAs in their names, they should report them here.

Investment Value - Investment Debt = Net Worth of Investments

If your parents own real estate or investments other than their principal residence, the value equals the amount they are worth today.

Investment debt equals how much your parents owe on real estate and investments other than their principal place of residence. Investment debt means only those debts that are related to the investments.

Subtract the amount of debt on these assets from their value. Write this amount in for net worth of investments.

83. Net worth of business and/or investment farm. Business or farm value includes the current market value of land, buildings, machinery, equipment, inventory, etc. Do not include your parents' primary home.

Business/Farm Value - Business/Farm Debt = Net Worth of Business/Farm

For business or investment farm value, first figure out how much the business or farm is worth today.

Business or investment farm debts are what your parents owe on the business or farm. Include only debts for which the business or farm was used as collateral.

Subtract the amount of debt from the value. Indicate this amount for net worth of business and/or investment farm.

To report current market value for a business, you must use the amount for which the business could sell as of the date of the application. Also, if your parents are not the sole owners of the business, they should report only their share of its value and debt.

TIP: When evaluating the value of the business or farm do not take into consideration the “**Goodwill**” part of the business. Also, evaluate the value as if you **HAD** to sell the business or farm **WITHIN 30 DAYS**.

COMPLETING THE 2006-2007 FAFSA (OTHER) QUESTIONS

STEP 5

Complete this step only if you answered, "Yes" to any question in **STEP THREE**.

Purpose: The number of family members you report determines the allowance that will be subtracted from your family's income to account for basic living expenses when the Department's processor calculates your EFC. The number of family members in college directly affects your family's ability to contribute to your education costs. Dividing the number of family members in college into your EFC will increase the aid eligibility of each family member that will be attending college.

Questions 84-85

85. Number in students (and spouses) household. The following persons are included in the household size of an independent student:

- You
- Your spouse, excluding a spouse not living in the household as a result of death, separation, or divorce
- Your children, if they will receive more than half of their support from your household between July 1, 2006 and June 30, 2007
- Your unborn child, if that child will be born before July 1, 2006 and your household will provide more than half of the child's support from the projected date of birth to the end of the award year (if there is a medical determination of a multiple birth, then all expected children can be included)
- Other people, if they live with you and will receive more than half of their support from your household for the entire award year (July 1, 2006 through June 30, 2007)

To determine whether to include children in your household size, the "support" test is used (rather than a residency requirement) because there may be situations in which you support a child who does not live with you, especially in cases of divorce or separation. In such cases, the parent who provides more than half of the child's support may claim the child in his or her household size. It does not matter which parent claims the child as a dependent for tax purposes. If you receive benefits (such as Social Security or AFDC payments) in the child's name, these benefits must be counted as parental support to the child.

Support includes money, gifts, loans, housing, food, clothes, car payments or expenses, medical and dental care, and payment of college costs.

85. Number of college students in household. This question asks about the number of household members who, in 2006-07, are or will be enrolled in a postsecondary school. Count yourself as a college student. Do not include your parents. Include others only if they will be attending at least half time in a program that leads to a degree or certificate at a postsecondary school eligible to participate in any of the Federal Student Aid Programs.

STEP 6

Questions 86-98

Purpose: This section permits you to list up to six schools that you are interested in attending. If you apply using FAFSA on the Web, you must list at least one school. You don't need to list any schools on a paper FAFSA, but if you do so, the school you eventually select can deliver your aid faster.

The Department will send your information to all the schools listed. You should list each school's **Federal School Code**. For purposes of federal student aid, it does not matter in what order you list the schools. However, to be considered for state aid, several states require you to list a state school first. Therefore, if you plan to list a state school in your state of residence as one of the schools in Step Six, you might want to list it first.

TIP: It is best to list the most expensive in-state school **FIRST**.

If you want information sent to more than six schools, there are several ways to make sure all the schools receive your data:

- You can give your Data Release Number (DRN), printed on the Student Aid Report (SAR) you receive after submitting your FAFSA, to a school you didn't list on your application. The school will use your DRN to get a copy of your application information electronically.
- You can list six schools on the application, wait for your SAR to arrive in the mail, and then correct the SAR by replacing some or all of the original six schools with other schools.
- After the application is processed, you may send a letter to the Department's processor requesting changes in the list of schools.
- You can call the Federal Student Aid Information Center at 800-4-FED-AID (800-433-3243) to request changes to the schools to which the SAR was sent. You must receive your SAR before requesting these changes.
- You can give a photocopy of your SAR to any school that participates in the federal student aid programs.
- You can make corrections to your FAFSA over the web at <http://www.fafsa.ed.gov>.

The Department's processor will send data to only six schools at a time for one student. For example, if you originally listed six schools on the application and then replaced all six with new schools by changing your SAR, only the second set of six schools would get data from any corrections. If you made corrections to your FAFSA information at (or after) the time you listed the new schools, only the second set of schools would get the corrected data.

Federal School Code - The Department assigns a number called a Federal School Code to each school qualified to disburse financial aid. For a school to receive your application data, you must list the school's Federal School Code or full name and address. The FAFSA will be processed faster if you indicate the Federal School Code. These codes are not in the FAFSA instructions; they are provided in the "Federal School Code List" that the Department sends to high schools, colleges, and public libraries each fall. The Department also makes this list available at <http://www.fafsa.ed.gov>.

The Federal School Code is always a six-character code that begins with "0" (zero), "G," "B," or "E." Foreign schools may qualify to disburse aid, but some may not have Federal School Codes.

If you cannot get the Federal School Code, indicate clearly the complete name, address, city, and state of each college you are interested in attending. It is very important to indicate the correct city and state or Federal School Code so that your college can be identified. If a college is a branch campus, include the complete name of the branch. Also, indicate if it is a specific part of a university, such as the law school.

By answering the questions in Step Six and signing the FAFSA, you give permission to the U.S. Department of Education to provide your application information to the college(s) listed. Colleges will use your FAFSA information to determine the amount of your financial aid package. You should not indicate the name of a college if you do not want that school to receive your information. If you leave these questions blank, the Department will not send your application information to any colleges.

Housing plans. For each school listed, answer the questions corresponding to your housing plans at that school – on campus, off campus, or with parents.

98. Enrollment Status - A Financial Aid Administrator (FAA) will look at your expected enrollment status as a factor in determining your financial aid package. If you change your enrollment status, your FAA will adjust your award to reflect this change, depending on the timing of the change, how much aid is available, etc.

You should enter your expected enrollment status for the 2006-07 school years. If applying to more than one school, you should provide the enrollment status and school terms that apply to the school you are most likely to attend. If unsure of your enrollment status, you should select "full time."

For undergraduates, "full time" generally means taking at least 12 credit hours in a term or 24 clock hours per week. "Three-quarter time" generally means taking at least 9 credit hours in a term or 18 clock hours per week. "Half time" generally means taking at least 6 credit hours in a term or 12 clock hours per week.

STEP 7

Questions 99-103

Purpose: This section asks for your signature and your parent's signature if you are a dependent student, and the date you completed the FAFSA.

99. Date this form was completed- (Paper FAFSA only) Fill in the month and day spaces using 2-digit numbers, e.g., 04 for April. Then indicate the appropriate year. Note that all information you report on the FAFSA must be accurate as of the date you complete the form.

100. Student and parent signatures/use the PIN for electronic signatures. (This is Question 100 on the Paper FAFSA only. FAFSA on the Web filers will find instructions on signatures required in Section 8 of those application instructions.) You must either provide an electronic signature on FAFSA on the Web or Renewal FAFSA on the Web or print out and sign a signature page, or sign the paper FAFSA. If unsigned, your application will be returned unprocessed. If you provided parent information in Step Four, one parent whose information is provided must also sign electronically or on paper. You (and anyone else who signs the form) certify that all information on the form is correct and that everyone is willing to provide documents to prove that the information is correct. You also certify that you will use federal and/or state student financial aid only to pay the cost of attending an institution of higher education; that you are not in default on a federal student loan or have made satisfactory arrangements to repay it; that you do not owe money back on a federal student grant or have made satisfactory arrangements to repay it; and that you will notify your school if you default on a federal student loan. Additionally, you are giving your state financial aid agency permission to verify any statement on the form and to obtain income tax information for all persons required to report income on the form. Finally, by electronically signing FAFSA on the Web or signing the paper FAFSA, you give the Secretary of Education the authority to verify income reported on the FAFSA with the IRS and other federal agencies.

Do not submit your FAFSA on the Web application or sign, date, or mail the paper version of the FAFSA before January 1, 2006. If you do any of these things before this date, the application will not be processed and you will have to reapply.

When you sign electronically, you select your application year, enter your PIN information, and indicate you are a student before submitting the application. Your parents sign electronically by selecting the application year, entering parental PIN information, indicating they are parents, and identifying the person for whom they are electronically signing. Neither you nor your parents should share this number with anyone.

By electronically signing FAFSA on the Web or signing the paper FAFSA, you also give permission to the state financial aid agency to which information is being sent to obtain income tax information for all persons required to report income and for all periods reported on this form.

Although parental information must be provided for a dependent student, a high school counselor or a postsecondary school's Financial Aid Administrator (FAA) may sign the application in place of your parent(s) in the following cases:

- Your parents are not currently in the U.S. and cannot be contacted by normal means.
- Your parents' current address is not known.
- Your parents have been determined physically or mentally incapable of providing a signature.

If you are a dependent student, you cannot get federal aid without your parents' financial information and signature on the FAFSA. Unless your parents are unable to sign for one of the reasons listed above, your FAA cannot sign in place of them. Your parents' unwillingness to sign the FAFSA or provide financial information is not, in and of itself, a reason for the FAA to sign your FAFSA in place of them.

If your counselor or FAA signs the paper FAFSA or signature page in place of your parents, he or she should provide his or her title when signing and briefly state the reason (only one reason is needed) why he or she is signing for your parent(s). By signing your application, however, your counselor or FAA does not assume any responsibility or liability in this process. If a financial aid office finds any inaccuracies in the information reported, you will have to submit corrections.

If you complete a FAFSA on the Web application and fall into this category, you will need to either print a signature page or indicate that you are not printing a signature page and get an SAR. (Note, however that waiting for an SAR will delay the processing of the application.)

101-103. Preparer's name/Social Security Number/signature- (This is found in Questions 101-103 on the Paper FAFSA only. The *law requires* that if anyone other than you, your spouse, or your parents prepares the application, then the **preparer must write in his or her name, the firm/company name (if applicable), the firm/company address, and either the firm/company's Employer Identification Number (EIN) (as assigned by the IRS) or the preparer's SSN.**

High school counselors, FAAs, and others who help students with their applications by actually filling out line items on the form or dictating responses to items on the form are considered preparers, even if unpaid for their services.

FREQUENTLY ASKED QUESTIONS ABOUT THE FAFSA FILING PROCESS

What should I (the student) do if my family has special circumstances that aren't mentioned in the application?

You can talk to your Financial Aid Administrator (FAA). If your family's circumstances have changed from the base year (2005) due to loss of employment, loss of benefits, death, or divorce, the FAA may decide to adjust data elements used to calculate your EFC. The adjustment might increase your eligibility for student aid.

I'm not sure if I want to take out a student loan. What should I enter for the question asking if I am interested in student loans?

Some schools use this information to put together a financial aid package for you. Answering, "Yes" does not obligate you to take out a loan. You can change your mind later.

If I live with an aunt, uncle, or grandparent, should that relative's income be reported instead of parental information?

If the relative is your adoptive parent you must list them on the FAFSA. You must report any cash support given by relatives, but not in-kind support (such as food and housing) from relatives.

What if I live with a girlfriend or boyfriend who pays the rent?

You should not report any information for a friend or roommate unless the two of you are actually married or are considered to have a common-law marriage under state law. You must report any cash support given by the friend as untaxed income but should not report in-kind support (such as food). You would have to report as income the rent the roommate paid if your name is on the lease and if the roommate is paying the rent on your behalf.

When student aid is considered income?

Generally, grants and scholarships that do not exceed tuition, fees, books, and required supplies are not considered to be taxed or untaxed income. If you have an ROTC scholarship, a private scholarship, or any other kind of grant or scholarship, that grant or scholarship will be considered as an available resource by the financial aid office when packaging aid but will not be reported as income on the application.

However, any scholarship or grant that is used to pay room/board and miscellaneous expenses is considered taxable income to the student. Most federal work-study aid is also considered taxable income.

You should report grants, scholarships and federal work-study you reported on your tax return. You should then report these items as exclusions from income on Worksheet C.

What's the difference between cash support and in-kind support?

Cash support is support given either in the form of money or money that is paid on your (the student's) behalf. You must report cash support as untaxed income. Thus, if a friend or relative gives you grocery money, it must be reported as untaxed income on Worksheet B. If the friend or relative pays your electric bill or part of your rent, you must also report those payments.

Examples of in-kind support are free food or housing that a family receives, usually in exchange for work or services. You usually don't report such support.

However, the application does require you to report the value of housing a family receives as compensation for a job on Worksheet B. The most common example is free housing or a housing allowance provided to military personnel or clergy.

I am now a U.S. citizen but have an Alien Registration Number (A-Number). How do I respond?

Indicate that you are a U.S. citizen – do not indicate that you are an eligible non-citizen, and do not provide an A-Number.

I'm going to get married this summer. How do I answer the question that asks if I am married?

Answer "Yes" if you are married on the day you sign the FAFSA. Otherwise, answer "No." The FAFSA is a snapshot of your status the day it is signed; it does not forecast changes such as marriage.

Why must I report the highest school level my parents completed?

Some states and institutions make funds available to support students who are first-generation college students. This information also serves statistical purposes. If you don't know the answer, select "Other/unknown."

If I'm an emancipated minor, am I now independent?

The status of emancipated minor is not recognized by the U.S. Department of Education for financial aid purposes; such a student must meet one of the other listed criteria to be independent.

If I am in the National Guard or am an active duty military member, am I considered a veteran for purposes of filling out the FAFSA?

If you were a member of the National Guard or were a Reservist called to active duty for purposes other than training and were released under a condition other than dishonorable, you are considered a veteran for FAFSA purposes.

If you are on active duty in the Army, Navy, Air Force, Marines or Coast Guard, but will be a veteran by June 30, 2007, you are considered a veteran for FAFSA purposes. If your active duty will continue past June 30, 2007, however, you are not considered a veteran for FAFSA purposes.

I'll be filing a tax return this year but I probably won't get around to it until April. How should I answer the financial questions? Should I wait to fill out this form until after I've filed my tax return?

Ideally, you should complete a FAFSA after you've done your tax return, but don't wait until April. Many colleges award aid on a first-come, first-served basis. Also, you may not be eligible for state aid if you wait until April to submit your FAFSA. If you haven't submitted your tax return, you should calculate your Adjusted Gross Income (AGI) and taxes paid using the instructions from IRS Form 1040. You can get the instructions and the form at a public library, your local post office, or download them in Portable Document Format (PDF) from <http://www.irs.gov/formspubs/forms.html>

You might have to provide your college with a copy of your completed tax return (assuming you're required to file one) before you receive federal student aid.

If my parents are divorced, whose information do I need?

Normally it is the parent that you lived with the most during the past year. It does not make a difference which parent claims you as a dependent for tax purposes. If you did not live with either parent or lived equally with each parent, the parental information must be provided for the parent from whom you received the most financial support or the parent from whom you received the most support the last time support was given.

If you are a dependent student and your parent is remarried, the stepparent's information must be included or you will not be considered for federal student financial aid.

How does a family decide whom should be counted in the household size?

Anyone in the immediate family who receives more than 50% support from a dependent student's parents or an independent student and spouse may be counted in the household size even if that person does not reside in the house. For example, a sibling who is over 24 but still receives the majority of his/her support from the parents can be included. Siblings who are dependent (as defined by the FAFSA) as of the date you apply for aid are also included, regardless of whether they receive at least 50% of their support from the parents. Any other person who resides in the household and receives more than 50% support from the parents may also be counted, as long as the support is expected to continue through June 30, 2006. An unborn child who will be born during the award year may also be counted in the household size.

Household size and tax exemptions are not necessarily the same. Exemptions look at the previous year or tax year and household size refers to the school year for which the student is applying for aid.

My parents separated four months ago. I live with my mother. My parents filed a joint tax return and claimed me as an exemption. Do I report either parents' incomes, or just my mother's?

Report only your mother's income and asset information because you lived with her the most during the past 12 months. Use a W-2 Form or other record(s) to determine her share of the income reported and taxes paid on the tax return.

If I (the student) am separated but filed a joint tax return, how is the information reported?

You should give only your portion of the exemptions, income, and taxes paid.

Who qualifies to be counted in “the number in college” question?

The answer is any people (other than your parents) who are counted in the household and will be attending any term of the academic year at least half time. The person must be working toward a degree or certificate leading to a recognized education credential at a postsecondary school eligible to participate in the Federal Student Aid Programs. You (the student) need not be enrolled half time to be counted in the number in college.

When does my school have to receive the results from my application?

Your school must have your information by your last day of enrollment in 2006-07, or by September 2, 2007, whichever is earlier. If your school has not received your application information electronically, you must submit your paper SAR to the school by the deadline. Once the school receives your information, it will use your EFC to determine the amount of your federal grant, loan, or work-study award, if you are eligible. The FAA will send you a letter explaining the aid the school is offering.

What if I don't get an SAR or I need another copy of my SAR?

If you do not receive your SAR or SAR Information Acknowledgement within two weeks or SAR within four weeks, call the Federal Student Aid Information Center at 800-4-FED-AID (800-433-3243). If you have a touch-tone phone, you can use the automated system to find out whether your application has been processed or to request duplicate copies of your report. You will need to provide your Social Security Number and the first two letters of your last name. You can also check the status of your FAFSA and print a copy of your SAR at www.fafsa.ed.gov.

What is meant by the term “The Ability to Pay” in relationship to income taxes and the financial aid system?

It is a principle of taxation. Individuals who earn more income pay more tax, not because they use more government goods and services but because taxpayers who earn more have the ability to pay more. The **progressive tax** or higher tax rates for people with higher incomes, is based on this principle. This same principal is used when the college distributes financial aid to students.

How important is appropriate tax planning when it comes to paying for college?

Appropriate tax planning is always important regardless of paying for college, reducing the family debt or in your retirement planning. Since most American taxpayers pay over 35% of their income into the federal and state tax system, it is of the utmost importance to keep your tax liability down to a minimum. Every dollar saved in taxes is just like receiving a dollar in scholarship monies.

How important is our family's Adjusted Gross Income (AGI) when it comes to qualifying for financial aid?

Adjusted Gross Income is a person's entire income (for example, wages, interest income, money from a rental property, business income/losses, capital gain income/losses, etc.) after it is reduced by adjustments (such as contributions to an IRA, student loan interest, or medical savings account, moving expenses and alimony paid to an ex-spouse). It is often referred to in tax publications as AGI, and is used for various tax payment or credit calculations.

In the financial aid arena the AGI of the parents and student is the major driving force when calculating the Expected Family Contribution (EFC). Keeping your AGI down to a minimum means you will pay less tax on your income. The less taxable income you have the more potential for financial aid.

How important are deductions or adjustment that are classified as "Above-the-line deduction" when it comes to college financial aid?

The Above-the-line-deduction is a deduction that is not itemized on Schedule A. Instead, it is subtracted from total income on the Form 1040 to arrive at a taxpayer's adjusted gross income (AGI). Since the adjusted gross income amount is entered on the last line of page 1 of the 1040, any tax breaks used in arriving at this amount -- such as allowable IRA contributions, student loan interest and moving expenses -- are known as above-the-line deductions. Taxpayers who don't itemize as long as they opt to file the long Form 1040 can use above-the-line deductions. They also immediately produce a lower adjusted gross income, which in turn directly cuts a taxpayer's overall bill because it is the first step in arriving at the taxable income amount. Since the first financial question on the FAFSA is "What is your Adjusted Gross Income..." the lower your AGI is, the more potential for your student to receive financial aid.

Which is more beneficial; a Tax Deduction or a Tax Credit?

Tax Deductions are expenses the IRS allows you to subtract from your taxable income. If you have taxable income of \$30,000 and deductions of \$3,000, then you would figure how much tax you owe on the difference -- \$27,000.

Tax Credits are much like credits you get from a store. You use the credit to reduce the amount of the tax you owe. Tax credits are more valuable than deductions because they directly reduce the amount of tax you owe, rather than reducing the amount of income that is taxed. Examples of some tax credits are:

- Hope Tax Credit
- Lifetime Learning Tax Credit
- Child Tax Credit

I understand reducing my tax liability is important. Is there any way to reduce my FICA tax so I

can use some of this money to help pay for college costs?

FICA (Federal Insurance Contributions Act) consists of payments to the Social Security retirement supplement system and the Medicare hospital insurance program. A tax for each component is levied on employers, employees and certain self-employed individuals. If you are a normal wage earner there is nothing you can do to lower your FICA tax other than make less income. But if you are self-employed and own a company there is ways to reduce your FICA tax liability. Check with your tax professional for advice.

What does “UNTAXED INCOME” mean when it comes to the financial aid system?

The financial aid system accesses both taxable income and untaxed income when calculating the Expected Family Contribution (EFC). The financial aid system treats your income differently than the federal or state government. For example: The federal and state governments do not tax 401-K contributions as they are withheld from your paycheck, but the financial aid system does. Their thinking goes this way; you can stop contributing to your retirement and use the money to help pay for college expenses. You can catch up on your retirement after your student graduates from college. Whether this is fair or not this is the way the financial aid laws are written by Congress.

FEDERAL METHODOLOGY FORMULA

Calculating Your Expected Family Contribution

Most parents need some financial help when they are paying for their children's college educations. Unfortunately, many parents are not familiar with the best ways to apply for and possibly receive financial aid nor do most families understand how to handle their income, assets and taxes during and before the college years.

As a result, they pay more out of their own pockets and enroll their children in colleges that they can afford – rather than colleges that are ideal for their children. Most families that feel they will not qualify for financial aid will not complete the financial aid applications – this could be a big mistake. It is true that most financial aid is in the form of loans; however, there is the possibility of receiving scholarships and grants (Need and Merit Based) depending on the type of college the student will be attending. Therefore, it is very important to complete the financial aid application(s) every year while the student is attending college regardless of the parents' income and assets.

Failing to do any advance planning for the application process could be a big mistake. Eligibility for financial aid is determined by taking a snapshot of the family's financial situation. If you are applying for your child's freshman year of college, the year that is of the most importance is from January 1 of the student's junior year in high school to December 31 of their senior year. Any financial transactions you make or have made during this year could help or hurt your child's chances of getting aid (need or merit).

For example: If you had accumulated some stock investments to pay for college and sold them during your child's senior year in high school, the capital gains on the stock would increase your income and reduce your eligibility for aid. On the other hand if you had a loss on the investments it would reduce your adjusted gross income thus increasing your aid eligibility.

Many families simply fill out the financial aid forms and hope for the best. They are not assertive enough and do not keep track of the application process. Another mistake many families make is they assume the college will help them get the most financial aid possible. In reality – it does not work this way. It's important to understand that the college is apportioning a pot of money and demand exceeds supply in the majority of cases. Therefore, it is not in the school's best interest to help the entire families figure out how to maximize students' financial aid. They are not trained in money management, taxes, investments, budgeting etc. Therefore, it is the responsibility of the parents and student to plan ahead to cover educational costs.

At the beginning of this booklet we outlined how to complete the FAFSA line-by-line. Now we will show you the numbers behind the formula so you can make important tax and financial decisions. But before we get into the formula let us look at what college will truly cost if you do not do any planning.

Almost every family wants financial aid. During this time of the year families with a senior in high school are trying to find the ever elusive financial aid dollar that will help pay for their student's college education. We are constantly being asked about scholarships and how to obtain them. Let's look at some facts that were presented to the College Board in 2001 from a special report "Trends in Tuition and Financial Aid" that covers some important issues.

In 2000 there was approximately \$68 Billion in financial aid available to American families who had members attending college. Of this amount of money the Federal Government issued more than 70% of these funds, of which 60% was in the form of loans. Over the last 10 years available student aid has increased by almost 90% in constant dollars. However, the growing reliance on loan programs was responsible for two-thirds of this increase. During the last decade loan aid has increased by 125%, while grant aid has only increased by 55%. Over the past quarter century, federal student aid has drifted from a grant-based to a loan-based system, producing a change in the way many students and families finance postsecondary education.

Unsubsidized Stafford Loan option, that was introduced in 1992-1993, that is available regardless of need, continues to grow while borrowing in the Subsidized Loan (need-based) program has leveled off. Unsubsidized borrowing by students and parent PLUS loans now account for more than \$17 Billion, or 48% of Federal Education Loan volume. Borrowing through the Federal Parents Loans for Undergraduate Students (PLUS) program rose 6% in 1999-2000 after adjusting for inflation. Since 1992, PLUS volume has increased by almost 150%. In 1999-2000 the average PLUS loan amount was \$6,769, up more than 70% compared to seven years ago.

Alternative Loans, (Non-Federal borrowing) that is available from other lenders (Sallie-Mae, colleges, etc.) totaled \$3.8 Billion in 1999-2000, was up 30% over the previous year. Even though this is a small amount compared to the \$36 Billion in Federal Loans, it is a large increase over the past four years, which reflects a growing interest in and reliance on Alternative Loans for paying for college.

Tuition Inflation and Taxes – Hurting Family’s Pocketbook

Tuition increases outpaced growth in personal and family income during the 1980’s and 1990’s, while inflation adjusted tuition averaged at both public and private four-year institutions more than doubled from 1980 to 1999. At the same time, median income of families most likely to have children in college (parents ages 45-54) has been relatively stagnant, rising 20% since 1980. Tuition at four-year private institutions between 1989 and 2000 increased by 32% and from 1980 to 2000 it increased 118%. Tuition at four-year public institutions during this same period increased 49% and 114% respectively. Medium family income (45 to 54 years of age) increased 4% from 1998 to 2000 and increased 20% from 1980 to 2000.

According to national figures 50% of families that have college bound students have saved \$0 toward college expenses and of the families that have saved for college only 4% have saved over \$5,000. Medium income families not only have to face the reality of tuition doubling every ten years, they also must be concerned about the True-After Tax Cost of paying for college as well.

For example: If a student attends a four-year public institution costing \$12,000 a year and the family qualifies for the Hope and Lifetime Tax Credits and qualifies for a Subsidized Stafford Loan and receives \$2,000 in scholarships, the family would have an out-of-pocket expense of \$5,875 the first year of college (\$12,000 - \$1,500 Hope Credit - \$2,625 Stafford Loan - \$2,000 in scholarships = \$5,875). For this family to pay for their out-of-pocket expense they would have to pay taxes on \$10,335 of income to clear \$5,875 for educational expenses (28% Federal Tax + 6% State Tax + 1.5% Local TAX + 7.65% Social Security Tax = 43.15% TAX).

As you can see most of the college expense is paid with **AFTER TAXED DOLLARS**. Therefore, it is in

the best interest to the family to reduce the largest bill they have – **TAXES**. For every dollar saved in taxes it is just like getting a dollar in scholarship money.

The following pages will outline the Federal Methodology Formula that is used to calculate your Expected Family Contribution (EFC). We suggest printing this formula out and play “**what if**” with your personal figures. By completing the formula you will know what your EFC will be within \$400 to \$500 dollars.

UNDERSTANDING THE STUDENT FINANCIAL NEED OR NEEDS ANALYSIS

Take the total cost of attending college - called cost of attending (COA) – Tuition, fees, books, supplies, room and board, and miscellaneous cost (spending money, travel expenses, etc.)

Minus

The Family’s Expected Family Contribution (EFC)

Equals

Financial Aid Need

Minus

Student’s resources (outside scholarships, cash paid on behalf of the student by people other than the parents, distributions from State Sponsored Pre-Paid Tuition Plans etc.

Equals

Adjusted Financial Aid Need

Needs Analysis Example

COA	\$13,000
-EFC	<u>- 6,000</u>
=NEED	7,000
-RESOURCES	<u>- 1,500</u>
= ADJ. NEED	\$ 5,500

The financial aid formula will access the Parent's Income at a 22% to 47% After Allowable Deductions

- Federal, State, and Social Security Taxes
- Income Protection Allowance (Size of Family)
- Employment Allowance
- Student's Income is accessed at a flat 50% after Allowable Deductions
- Federal, State, and Social Security Taxes
- Income Protection Allowance of \$2,550

PARENTS' AVAILABLE INCOME

Step 1: Parents' total available income from taxed and untaxed income from the FAFSA application (FAFSA Questions 76, 77, - 78 Worksheet A, and 79 Worksheet B)

Minus

Step 2: Total federal, state, and social security taxes owned (**do not count over payment of taxes or refunds**) – (FAFSA Question 74 – to calculate state and social security tax, use FAFSA Questions 76 and 77 - Father's income from work and Mother's income from work. State taxes are outlined in TABLE A1 at the end of this section. To calculate the Social Security Taxes paid on earned income use TABLE A2 at the end of this section or take total earned income [including 401-K contributions etc] multiplied by 7.65%.

Minus

Step 3: Employment Allowance (maximum of \$3,100) – to qualify for this Employment Allowance you must be a single parent/student or both parents must have employment income. If only one parent works, this allowance is not available. The formula will credit 35% of the lower of the two incomes.

Example: Dad earns \$50,000 and Mom earns \$5,000. The lowest income of the parents is \$5,000. $\$5,000 \times 35\% = \$1,750$, this is the maximum you can qualify for in Employment Allowance monies.

Minus

Step 4: Income Protection Allowance (Look up on TABLE A3 at the end of this section – This is based on your answers you gave on FAFSA Questions 65 size of household and 66 number in college.)

Minus

Step 5: Total from parents' side of Worksheet C or FAFSA Question 80.

Once the above is completed the **TOTAL** is called **AVAILABLE INCOME FROM EARNINGS**

Student's Available Income

To calculate the Student's Available Income read Steps 1 and 2 above.
Student Income Protection Allowance is a maximum of \$2,550

To calculate Student's Available Income – Add all income in Step 1 above **minus** Step 2 above **minus** \$2,550 **divided by** 50% = Student's Available Income From Earnings

Example: \$4,000 total income from Step 1 - **minus** \$500 in taxes in Step 2 - **minus** \$2,550 = \$950 **divided by** 50% = \$475 is the Student's Available Income from Earnings

Parents' Available Income from Assets

If the parents have exposed assets above their Asset Protection Allowance (**TABLE A5**), the formula must turn this sum of money into income and **add** it to the Parents' Available Income from Earnings. Once this is done you will have what is called the **PARENTS' TOTAL AVAILABLE INCOME**.

A 12% **Income Conversion Factor** is used to calculate the income from assets. See examples below.

This question relates to FAFSA Question 60 and 64 (parents' ages)

The older the parent the more Asset Protection Allowance will be available (**refer to Table A5**)

Example 1: Parents' have \$50,000 in CDs. Oldest parent is age 44.

Formula: Total assets – **minus** – Asset Protection Allowance X 12% income conversion factor = Assets Converted to Income

\$50,000 total assets – **minus** – \$43,200 Asset Protection Allowance based on the age of 44 in **TABLE A5** = \$6,800 X 12% income conversion factor = \$816 Available Income From Assets

TIP: Asset held in a business is treated much less than assets held individually. By using **TABLE A4** you can figure the business/farm net worth Adjustment.

Example 2: Parents' have \$15,000 in CDs and a business with a net worth of \$50,000

Formula: Net Worth of XYZ Business – **minus** – Conversion Values from (**TABLE A4**) = Conversion Net Worth of XYZ Business – **plus** – other personally held exposed assets – **minus** – parents' Asset Protection Allowance (**TABLE A5**) X 12% = Available Income From Assets

\$50,000 net worth of XYZ Business – **minus** – 40% of net worth of business/farm from **TABLE A4** = \$20,000 conversion net worth of XYZ Business – **plus** - \$15,000 in CDs personally held exposed assets – **minus** – parents' Asset Protection Allowance of \$43,200 (**TABLE A5**) = a negative value of \$8,200 X 12% = \$0 Available Income From Assets.

TIP: As you can see in Example 1 the family that had \$50,000 in CDs must use \$816 a year of the CDs to cover the student's educational expenses. But the family in Example 2 that had \$15,000 in CDs and a business net worth of \$50,000 (total assets \$65,000) did not have to use **ANY** of their assets to pay for college expenses.

STUDENTS' AVAILABLE INCOME FROM ASSETS

Students that have exposed assets in their name must use a portion of these assets to help pay for their college expenses. The total Available Income from Assets must be added to the student's Available Income from Earnings to figure the Student's Expected Contribution.

One important factor to remember is **THE STUDENT DOES NOT GET AN ASSET PROTECTION ALLOWANCE** like their parents do. Therefore, 100% of the assets the student owns will be exposed to the FAFSA Financial Aid Formula.

Example 1: Parents have saved up \$10,000 in a Uniform Gift to Minors Account (UGMA) in the student's name. When the family starts completing the FAFSA they must count this \$10,000 as an asset of the student on FAFSA Question 44.

Formula: Total assets owned by the student X 35% = Available Income from Assets

\$10,000 in UGMA X 35% = \$3,500 Available Income from Assets

PARENTS' EXPECTED CONTRIBUTION

By adding the parents' Available Income from Earnings and Available Income from Assets we come up with what is call the Parents' Total Available Income.

Example: Available Income from Earnings \$35,000 – **plus** – Available Income from Assets \$816 = \$35,816 Total Available Income

We now know the Total Available Income of the parents'. With this value we must use **TABLE A6** to calculate the Parents Expected Contribution.

Example: Total Available Income of parents is \$35,816 – **minus-** \$26,101 (**TABLE A6**) = \$9,715 X 47% = \$4,566 – **plus -** \$7,062 (**TABLE A6**) = \$11,628 Parents' Expected Contribution

STUDENT'S EXPECTED CONTRIBUTION

By adding the student's Available Income from Earnings and Available Income from Assets we come up with what is call the Student's Expected Contribution.

Example: Total Available Income of student is \$475 – **plus** – Total Available Income from Assets is \$3,500 = \$3,983 Total Student's Expected Contribution

TOTAL EXPECTED FAMILY CONTRIBUTION

Now that we know the Parents' Expected Contribution and the Student's Expected Contribution we can easily figure the Total Expected Family Contribution or EFC.

Example 1: Parents' Expected Contribution is \$11,628 – **plus** – Student's Expected Contribution is \$3,983 = \$15,611 Expected Family Contribution (**EFC**)

Based on the Expected Family Contribution we now can see how much financial aid the student potential will qualify for.

Example 2: XYZ Public College cost \$13,500 to attend. The Family Expected Contribution is \$15,611 is **MORE** than the total Cost of Attending (**COA**). Therefore, the only thing the student will qualify for is an Unsubsidized Stafford Loan, which is a non-need based loan. The Parents and student must pay the remaining Cost of Attending.

Example 3: ABC Private College cost \$23,500 to attend. The Family Expected Contribution is \$15,611 is **LESS** than the total Cost of Attending (**COA**). Therefore, the student will qualify for Federal and Institutional Financial aid.

TIP: Since most private colleges do not receive money from the state, they must find a way to be cost competitive with public colleges for quality students. In the two examples above the student could possible attend the private college at the same or lower cost than if they were to attend the public college. The reason behind this is most private college will give incentive monies to students to help balance the difference between the cost of a public education and their private college cost.

Good Advice: *Never select a college by cost alone. Your student could attend a quality private college for the same price or less than a public college.*

The following pages contain **TABLES** used in the above Financial Aid Calculations

FEDERAL METHODOLOGY TABLES

Table A-1: State and Other Tax Allowance		
Parents of Dependent Students		
If parents State or Territory of Residence are:	And Parents' total Income is ...	
	Less than \$15,000	\$15,000 or more
	Then the percentage is...	
South Dakota, Tennessee, Wyoming	1	0
Alaska, Florida, Louisiana, Nevada, North Dakota, Texas, Washington	2	1
Alabama, Arkansas, Mississippi, New Mexico, West Virginia	3	2
Arizona, Colorado, Delaware, Hawaii, Illinois, Indiana, Iowa, Kansas, Missouri, Nebraska, New Hampshire, Oklahoma, Pennsylvania, South Carolina	4	3
Georgia, Idaho, Kentucky, Michigan, Montana, North Carolina, Ohio, Utah, Vermont, Virginia	5	4
California, Connecticut, Maine, Massachusetts, Minnesota, Rhode Island, Wisconsin	6	5
District of Columbia, Maryland, New Jersey, Oregon	7	6
New York	8	7
Other	3	2

Table A2: Social Security Tax

Income Earned From Work	Social Security Tax
\$0 – \$90,000	7.65% of income
\$90,001 or greater	\$6,885 + 1.45% of Amount over

Table A3: Income Protection Allowance

Number in parents' Household, Including Student (FAFSA #65)	1	2	3	4	5
2	\$14,430	\$11,960			
3	17,970	15,520	\$13,050		
4	22,200	19,730	17,270	\$14,800	
5	26,190	23,720	21,270	18,800	16,340
6	30,640	28,170	25,710	23,240	20,790

Note: For each additional family member over 6, add \$3,460

For each additional college student (except parents), subtract \$2,460

TABLE A4: BUSINESS/FARM NET WORTH ADJUSTMENT

If the net worth of a Business or farm is -	then the adjusted net worth is –
Less than \$1	\$0
\$1 to \$105,000	40% of net worth of business/farm
\$105,001 to \$310,000	\$42,000 + 50% of excess over \$105,000
\$310,001 to \$515,000	\$144,500 + 60% of excess over \$310,000
\$515,001 or more	\$267,500 + 100% of excess over \$515,000

TABLE A5: Education Savings and Asset Protection Allowance

Age of Older parent	Allowance if there are Two parents'	Allowance if there is only one parent
25 or less	0	0
26	2,600	1,200
27	5,200	2,400
28	7,800	3,600
29	10,500	4,800
30	13,100	6,000
31	15,700	7,200
32	18,300	8,400
33	20,900	9,600
34	23,500	10,800
35	26,100	12,000
36	28,700	13,200
37	31,400	14,400
38	34,000	15,600
39	36,600	16,800
40	39,200	18,000
41	40,200	18,400
42	41,200	18,800
43	42,200	19,200
44	43,200	19,700
45	44,300	20,100
46	45,400	20,600

TABLE A5: Education Savings and Asset Protection Allowance

Continued

Age of Older parent	Allowance if there are Two parents'	Allowance if there is only one parent
47	46,600	21,000
48	47,700	21,500
49	48,900	22,100
50	50,100	22,600
51	51,600	23,000
52	52,900	23,600
53	54,500	24,100
54	55,800	24,800
55	57,500	25,400
56	58,900	26,000
57	60,600	26,600
58	62,400	27,400
59	64,200	28,000
60	66,100	28,800
61	68,000	29,500
62	70,000	30,300
63	72,300	31,100
64	74,400	32,000
65 or more	76,900	32,900

TABLE A6: Parents' Contribution from Adjusted Available Income (AAI)

If Parents' AAI is -	Contribution Is -
-\$3,409 or Less	-\$750
-\$3,409 to \$12,900	22% of AAI
\$12,901 to \$16,200	\$2,838 + 25% over \$12,900
\$16,201 to \$19,500	\$3,663 + 29% over \$16,200
\$19,501 to \$22,800	\$4,620 + 34% over \$19,500
\$22,801 to \$26,100	\$5,742 + 40% over \$22,800
\$26,101 or more	\$7,062 + 47% over \$26,100