

General Session #4

Verification (2019-20 and 2020-21)

Craig Munier, Ed Pacchetti, and Aaron Washington
U.S. Department of Education
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Key Staff Introductions

- Craig Munier, Policy Liaison and Implementation
- Aaron Washington, Policy, Planning and Innovation
- Ed Pacchetti, Customer Analytics

Agenda

- Verification History
- 2019-2020 Verification
- 2020-2021 Verification
- Hot Topic

Verification History

- Program Integrity regulations effective for the 2012-2013 award year
- Added verification groups
- New data elements and verification groups have been added and deleted over the last six years

2019-2020 Verification

Electronic Announcement-Changes to 2018-2019 and 2019-2020 Verification Requirements

- Income Tax Return
- Alternative documentation for Verification of Nonfiling
- <https://ifap.ed.gov/eannouncements/010919Chngsto1819and1920VerificationReq.html>, January 9, 2019

2019-2020 Verification

Resources

- Federal Register Notice of Information to be Verified for the 2019-2020 Award Year
 - <https://ifap.ed.gov/fregisters/FR032818.html>, March 28, 2018
- Dear Colleague Letter GEN 18-03
 - <https://ifap.ed.gov/dpcletters/GEN1803.html>, March 29, 2018
- 2019-2020 FAFSA Verification Suggested Text
 - <https://ifap.ed.gov/eannouncements/060818VerifiSuggestedTextPackage1920.html>, June 8, 2018
- 2019-2020 ISIR Guide
 - <https://ifap.ed.gov/eannouncements/090618ISIRGuide20192020.html>, September 6, 2018
- IRS Announced Updated Tax Transcript Redacting Sensitive Information
 - <https://ifap.ed.gov/eannouncements/100418IRSAnnUpdatedTaxTranscriptsRedactSenInfo.html>, October 4, 2018

2019-2020 Verification

Resources

- Verification Q & As
 - <https://www2.ed.gov/policy/highered/reg/hearulemaking/2009/verification.html>
- 2019-2020 EDE Technical Reference
 - <https://ifap.ed.gov/edetechref/1920EDETechRef0718Final.html>, July 30, 2018
- Electronic Announcement-Changes to 2018-2019 and 2019-2020 Verification Requirements
 - <https://ifap.ed.gov/eannouncements/010919Chngsto1819and1920VerificationReq.html>, January 9, 2019
- 2019-20 Application and Verification Guide
 - <https://ifap.ed.gov/fsahandbook/1920FSAHbkAVG.html>
- 2019-2020 COD Technical Reference
 - <https://ifap.ed.gov/eannouncements/111918CODTechRef1920.html>, November 19, 2018

2020-2021 Verification

2020-2021 Verification

- Same data items
- No changes to the verification tracking groups
- Acceptable documentation in the [*Federal Register*](#) Notice published May 24, 2019
- Suggested text meets regulatory requirements

2020-2021 Verification

2018 Income Information for Tax Filer (V1 and V5)

- Adjusted Gross Income (AGI)
- U.S. Income Tax Paid
- Untaxed Portions of IRA Distributions and Pensions
- IRA Deductions and Payments
- Tax Exempt Interest Income
- Education Credits

2020-2021 Verification

2018 Income Information for Nontax Filer (V1 and V5)

- Income earned from work

2020-2021 Verification

- Number of household members (V1 and V5)
- Number in college (V1 and V5)
- High School completion status (V4 and V5)
- Identity/Statement of Educational Purpose (V4 and V5)

2020-2021 Verification

- Filing extension beyond automatic six-month extension for 2018 tax year
 - A copy of the IRS's approval of an extension beyond the automatic six-month extension for tax year 2018;
 - Verification of nonfiling from the IRS dated on or after October 1, 2019;
 - A copy of IRS Form W-2 for each source of 2018 employment income received or an equivalent document; and
 - If self-employed, a signed statement certifying the amount of AGI and U.S. income tax paid for tax year 2018.

Note: If an institution requires that, after the income tax return is filed, an individual granted an extension submit tax information, the institution must use that tax information once the tax return is submitted to the IRS to reverify the income and tax information reported on the FAFSA®.

2020-2021 Verification

Verification of Nonfiling (VNF)

- IRS documents that clearly indicate that the IRS does not have a tax return record on file for the tax year are acceptable for VNF
- Verification of nonfiling from the IRS must be provided for (1) independent students (and spouses, if applicable) and parents of dependent student who did not file and are not required to file a 2018 income tax return and (2) individuals who are required to file a 2018 IRS income tax return but have not filed because they have been granted a filing extension beyond the automatic six-month extension

2020-2021 Verification

Requirement for Individuals Eligible for an Auto-Zero Expected Family Contribution (EFC)

For dependent students-

- The parents' Adjusted Gross Income (AGI) if the parents were tax filers
- The parents' income earned from work if the parents were nontax filers; and
- The student's high school completion status and identity/statement of educational purpose, if placed in Verification Tracking Group V4 or V5

2020-2021 Verification

Requirement for Individuals Eligible for an Auto-Zero Expected Family Contribution (EFC)

- For independent students-
 - The student's and spouse's AGI if they were tax filers;
 - The student's and spouse's income earned from work if they were non tax filers;
 - The student's high school completion status and identity/statement of educational purpose, if placed in Verification Tracking Group V4 or V5; and
 - The number of household members to determine if the independent student has one or more dependents other than a spouse

IRS Data Retrieval Tool (DRT) 2020-2021

- IRS DRT function is available for the 2020-2021 FAFSA processing year
- All DRT data continues to be encrypted, FAFSA applicants cannot make corrections, only institutions will be able to make corrections
- IRS data field flags identify what, if any, information was changed
- IRS DRT is mobile ready

Rollover

- If the DRT transfers a non-zero amount into the untaxed pension or IRA distribution field, the applicant will be able to report the amount of rollover and the Central Processing System (CPS) will subtract it
- The IRS Data Field Flag will be "2" – Field changed by user prior to submission of application
- To complete verification of this item, collect a signed statement certifying that the untaxed pension or IRA distribution contained a rollover

Amended Tax Returns 2020-2021

IRS Request Flag Value of 07

- Obtain a signed copy of the IRS Form 1040X or documentation from the IRS that include the change(s) made to the tax filer's 2018 tax information, in addition to one of the following:
 - IRS DRT information on the ISIR record with all tax information from the original tax return; or
 - An IRS Tax Return Transcript (that will only include info from the original tax return and does not have to be signed), or any other IRS tax transcript(s) that include all the income and tax information required to be verified

Report V4 and V5 Verification Results

- Reporting V4 and V5 verification results in FAA Access to CPS online continues to be in effect for 2020-2021
- Institutions need to select the proper award year for which they are providing results

Reminder

- An applicant may move from Verification Tracking Group V1 or V4 to group V5 based on corrections made to her or his CPS record or on other information available to the Department
 - Electronic Announcement Changes in Verification Tracking Groups:
<https://ifap.ed.gov/eannouncements/103116ChangesinVerificationTrackingGroup.html>, October 31, 2016
- An applicant can be selected for verification throughout the award year based on an update to the FAFSA

2020-2021 Verification

Resources

- Federal Register Notice of Information to be Verified for the 2020-2021 Award Year
<https://ifap.ed.gov/fregisters/FR052419.html>, May 24, 2019
- Dear Colleague Letter GEN-19-02,
<https://ifap.ed.gov/dpcletters/GEN1902.html>, June 7, 2019
- 2020-2021 FAFSA Verification Suggested Text
<https://ifap.ed.gov/eannouncements/073119VerificationSuggestedTextPackage20202021.html>, July 31, 2019
- [Electronic Announcement, November 26, 2019](#), 2020-2021 FAFSA Verification-IRS Tax Return Transcript Matrix

Verification Rates

Verification Rates

- Using a new Machine Learning Model (MLM) to choose FAFSA filers for verification.
- A smarter model for choosing FAFSA filers.
- Traditionally, around 30% of FAFSA filers overall were chosen for verification. Since October 1, 2018, around 22% of filers were chosen for verification.
- Selected about 900,000 fewer FAFSA filers for the 19-20 FAFSA when compared to the 18-19 FAFSA.

Verification Rates

Why choose 22% of FAFSA filers for verification?

- A cost-benefit analysis showed that verifying 22% of FAFSA applicants resulted in the highest return in improper payments.
- Verifying the riskiest of filers means the return in improper payments prevented is greater than the cost.
- Results in reduced improper payments AND reduced burden to colleges and universities AND reduced burden to students and families.

Verification Rates

How do we get to a lower selection rate?

- The Machine Learning Model (MLM) chooses FAFSA filers based on a risk score.
- FSA also chooses a small sample to be a control group and a random sample as a treatment group.
- Overall selection rate is just over 22%.

Verification Rates

Why didn't FSA lower the verification rate sooner?

- Verification is a balancing act between burden on students and families, the need to limit improper payments, and being mindful of the administrative burden on colleges and universities.
- Improper payments are defined as a FAFSA filer getting more OR less federal aid than they are eligible to receive due to error.
- Only with the new technology of the Machine Learning Model could FSA lower verification rates while controlling improper payments.

Verification Rates

How did the new model do on the recovery of improper payments?

- The MLM model prevents the same percentage of improper payments as the previous model, while verifying far fewer applicants.
- FSA's conservative estimate indicates that the reduction in the verification rate has reduced the burden on colleges and universities.

Verification Rates

What impact did the reduction of verification rates have on verification melt?

- Verification melt is the term used when a FAFSA filer chosen for verification drops out of the process and thus, is not able to access federal aid.
- FSA estimates verification melt to be 11% of filers chosen for verification, but other estimates put verification melt higher.
- When fewer filers are selected for verification, verification melt decreases as well.

Verification Rates

What is the impact of a reduced verification rate?

- Verify about 900,000 fewer FAFSA filers for the 19-20 FAFSA in comparison to the 18-19 FAFSA.
- A verification melt rate of 11% means that nearly 100,000 (99,000) more students may continue the process and receive federal aid that helps them to access higher education.
- If the verification melt rate is higher (some estimates put it as high as 25%) that number climbs to 225,000 students who will now access federal aid to fund their postsecondary education.

Verification Rates

What are FSA's goals for verification?

- Reducing the burden of verification on institutions, and on students and families while responsibly controlling for improper payments.
- Machine Learning Model is retrained every year.

Hot Topic

New IRS Tax Forms for 2018 Tax Year

- Tax Form Schedule 1 proxy exceptions would have allowed 1040 filers to still be eligible to file 1040A.

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

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

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

1. Capital gain (line 13 – may not be a negative value)
2. Unemployment compensation (line 19)
3. Other income to report an Alaska Permanent Fund dividend (line 21 – may not be a negative value)
4. Educator expenses (line 23)
5. IRA deduction (line 32)
6. Student loan interest deduction (line 33)

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

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

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New IRS Tax Forms for 2018 Tax Year

- Tax Form Schedule 1 proxy exceptions would have allowed 1040 filers to still be eligible to file 1040A.

SCHEDULE 1 (Form 1040)		Additional Income and Adjustments to Income		OMB No. 1545-0074 2018 Attachment Sequence No. 01	
Department of the Treasury Internal Revenue Service		▶ Attach to Form 1040. ▶ Go to www.irs.gov/Form1040 for instructions and the latest information.			
Name(s) shown on Form 1040				Your social security number	
Additional Income	1-9b	Reserved		1-9b	
	10	Taxable refunds, credits, or offsets of state and local income taxes		10	
	11	Alimony received		11	
	12	Business income or (loss). Attach Schedule C or C-EZ		12	
	13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ <input type="checkbox"/>		13	
	14	Other gains or (losses). Attach Form 4797		14	
	15a	Reserved		15b	
	16a	Reserved		16b	
	17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		17	
	18	Farm income or (loss). Attach Schedule F		18	
	19	Unemployment compensation		19	
	20a	Reserved		20b	
	21	Other income. List type and amount ▶		21	
	22	Combine the amounts in the far right column. If you don't have any adjustments to income, enter here and include on Form 1040, line 6. Otherwise, go to line 23		22	
Adjustments to Income	23	Educator expenses	23		
	24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	24		
	25	Health savings account deduction. Attach Form 8889	25		
	26	Moving expenses for members of the Armed Forces. Attach Form 3903	26		
	27	Deductible part of self-employment tax. Attach Schedule SE	27		
	28	Self-employed SEP, SIMPLE, and qualified plans	28		
	29	Self-employed health insurance deduction	29		
	30	Penalty on early withdrawal of savings	30		
	31a	Alimony paid	31a		
	31b	Recipient's SSN ▶	31b		
	32	IRA deduction	32		
	33	Student loan interest deduction	33		
	34	Reserved	34		
	35	Reserved	35		
	36	Add lines 23 through 35	36		

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 71479F

Schedule 1 (Form 1040) 2018

New IRS Tax Forms for 2018 Tax Year

- New Tax Transcript template
- Accommodates tax information for both the old (2017 and prior) tax forms and the new (2018 and subsequent) tax forms
- Combines old tax lines and new tax lines into one transcript
 - Tax information/data should only appear on corresponding tax data line for applicable tax year

2020-2021 Tax Return Matrix

- Significant changes to IRS tax form line items for 2018 tax forms
- [Electronic Announcement](#), November 26, 2019, 2020-2021 FAFSA Verification-IRS Tax Return Transcript Matrix
- Matrix no longer references IRS forms 1040A and 1040-EZ
- Values associated with a tax item that includes “Per Computer” must be used for verification even if different than what was reported by the tax filer

ABLE Accounts

Clarification that FAFSA reported Investments do not include “Achieving a Better Life Experience” (ABLE) accounts.

Notes for questions 41 and 42 (page 4), 44i (page 5), and 89 and 90 (page 7)

Net worth means the current value, as of today, of investments, businesses, and/or investment farms, minus debts related to those same investments, businesses, and/or investment farms. When calculating net worth, use 0 for investments or properties with a negative value.

Investments include real estate (do not include the home in which you live), rental property (includes a unit within a family home that has its own entrance, kitchen, and bath rented to someone other than a family member), trust funds, UGMA and UTMA accounts, money market funds, mutual funds, certificates of deposit, stocks, stock options, bonds, other securities, installment and land sale contracts (including mortgages held), commodities, etc.

Investments also include qualified educational benefits or education savings accounts (e.g., Coverdell savings accounts, 529 college savings plans and the refund value of 529 prepaid tuition plans). For a student who does not report parental information, the accounts owned by the student (and/or the student's spouse) are reported as student investments in question 41. For a student who must report parental information, the accounts are reported as parental investments in question 89, including all accounts owned by the student and all accounts owned by the parents for any member of the household.

Money received, or paid on your behalf, also includes distributions to you (the student beneficiary) from a 529 plan that is owned by someone other than you or your parents (such as your grandparents, aunts, uncles, and non-custodial parents). You must include these distribution amounts in question 44i.

Investments do not include the home you live in, the value of life insurance, ABLE accounts, retirement plans (401(k) plans, pension funds, annuities, non-education IRAs, Keogh plans, etc.) or cash, savings and checking accounts already reported in questions 40 and 88.

Investments also do not include UGMA and UTMA accounts for which you are the custodian, but not the owner.

Investment value means the current balance or market value of these investments as of today. Investment debt means only those debts that

Acceptable Documentation

- An institution may request applicants submit a tax transcript as documentation of income and tax information
- A signed copy of the income tax return is also acceptable
- An institution may not require a tax transcript in lieu of a signed copy of the income tax return unless the institution has concerns about the validity of the tax return submitted
- In those circumstances the institution may require a tax return transcript or other documentation specified in the annual *Federal Register* notice
- The institution must document the reason why the income tax return was not acceptable

Craig Munier
craig.munier@ed.gov

Ed Pacchetti
ed.pacchetti@ed.gov

Aaron Washington
aaron.Washington@ed.gov