FAFSA TAX FIELD GUIDE

Everything a financial aid administrator needs to know about how FAFSA data relates to income tax forms.

For use in the 2026-2027 academic year with tax year 2024 as the base year.

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The 2026-2027 *FAFSA Tax Field Guide*

Introduction

For many years, the annual *Tax Transcript Decoder* was the go-to reference document for financial aid administrators (FAAs) who needed to find verification data in a tax return or tax return transcript. Issued annually and produced by its creator, Cheryl Hunt, this document was discontinued by NASFAA after the 2023-2024 version was produced.

Iron Bridge Resources has created the *FAFSA Tax Field Guide* as a replacement for the *Tax Transcript Decoder* for the FAFSA Simplification era. Iron Bridge worked with Cheryl Hunt to create the first *Field Guide* for the 2025-2026, which was released on November 15, 2025. This 2026-2027 document is the second edition of the *Field Guide*.

We hope you find this document a worthy successor to the *Decoder* and would love your feedback. Please reach out to robert@ironbridgeresources.com with any comments, concerns, or suggestions for future versions of this annual publication.

Readers are reminded that they must stay up-to-date with Department of Education guidance and that guidance supersedes anything published in this document.

All lines in the Table of Contents are live links that will bring users directly to the section referenced.

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This document was published on September 15, 2026 and is believed to be up-to-date and accurate as of this date. FAAs are reminded that they are responsible for learning about and implementing updates from the Department of Education as they are published.

The Department of Education was not involved in this document’s production and has not reviewed it for accuracy.

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About Iron Bridge Resources

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The Iron Bridge leadership team boasts 200+ years of combined experience serving the higher education community. Our consulting team is comprised of seasoned industry experts specializing in financial aid, bursar/student accounts, registrar, and enrollment management functions. By partnering with us, you gain access to the best the industry has to offer, ensuring your institution benefits from cutting-edge insights and practical solutions.

About the Authors

About Robert Weinerman

Robert's background includes over 10 years in senior financial aid roles at the Massachusetts Institute of Technology and Babson College, as well as 13 years at College Coach, the nation's largest provider of college counseling services to corporate America. With experience working in both financial aid offices and directly with families, Robert possesses a unique understanding of the role financial aid officers play as well as how students and parents perceive them. Robert has been the Director of Training at Iron Bridge Resources since 2014, providing training to financial aid administrators about the tax-related information they need to understand.

About Cheryl Hunt

Cheryl Hunt dedicated more than 30 years to the field of financial aid. She created and authored the original *Tax Transcript Decoder*—a resource cherished by financial aid administrators across the country. First introduced for 2012–2013, the Decoder remained in use through 2023–2024 and became an indispensable tool for the profession. She is also a co-creator of the first *FAFSA Tax Field Guide.*

Known for her expertise and approachable teaching style, Cheryl was a much-sought-after speaker and trainer in the field until her retirement. A lifetime member of the California Association of Student Financial Aid Administrators (CASFAA), Cheryl's lasting contributions continue to shape and strengthen the profession.

What's Changed Since the 2025-2026 FAFSA Tax Field Guide?

For the purposes of this publication, the term "primary contributor" means

The dependent student's parent or parents who are required to contribute to the FAFSA
OR
The independent student (and their spouse if they are married).

Although V1 and V5 verification are largely unchanged from 2025-2026 to 2026-2027, there are some changes to note:

Maximum and Minimum Pell Grant Eligibility will be Based on the Sum of the Adjusted Gross Income (AGI) and the Foreign Earned Income Exclusion (FEIE)

In 2024-2025 and 2025-2026, an applicant's eligibility for Maximum or Minimum Pell Grant was based on a comparison of the applicant's primary contributor's AGI to a multiple of the base year poverty guideline for their family structure, family size, and state of residence. Starting in 2026-2027, the AGI is being replaced by the sum of the AGI and the FEIE.

This means that starting with the 2026-2027 aid year, financial aid administrators (FAAs) will no longer be required to consider using professional judgment to remove Maximum Pell Grant eligibility from applicants whose ISIRs are flagged with Comment Codes 40, 76, 96, or 127. These codes indicated that the applicant was eligible for Maximum Pell Grant based on the primary contributor's AGI, and that this contributor also reported having claimed an FEIE.

The 2026-2027 *FAFSA Tax Field Guide has been updated to address this change.*

New Section: Tax Items on the FAFSA that are Not Subject to V1 or V5 Verification

The *FAFSA Tax Field Guide* will now include information about FAFSA tax data elements that appear on the tax return but are not subject to V1 or V5 verification reviews. These include:

- The Earned Income Credit
- Reduced Premium for Qualified Health Plans
- How to determine if a taxpayer filed a lettered tax schedule with their tax return
- Net Profit or Loss from IRS Form 1040 Schedule C
- Amount of College Grants, Scholarships, or AmeriCorps Benefits Reported to the IRS

New Section: Amended Tax Returns

The *FAFSA Tax Field Guide* will now include a section covering IRS Form 1040-X and the IRS Account Transcript.

NOTE: The author was unable to obtain a copy of a 2024 Form 1040-X and related Account Transcript, so this section of the *Field Guide* is based on past year's documents, not 2024 documents.

New Information About Form 1040-NR and Form 1040-SS

Where relevant, specific information about Form 1040-NR and 1040-SS is included in the main body of the *FAFSA Tax Field Guide*. Also, see here (Form 1040-NR) and here (Form 1040-SS).

Table of Contents

Introduction to FAFSA Tax Data

The Student Aid Index (SAI) and Pell Grant eligibility depend, in part, on data that is derived from Form 1040 and its Schedules. Financial aid administrators (FAAs) are required to review this data in a number of circumstances, including when a student is selected for V1 or V5 verification, or if the FAA believes that the data may be incorrect (conflicting information). Once an FAA determines that the data must be reviewed, they must decide which documents to use to conduct the review.

In the *FAFSA Tax Field Guide*, we will look at each FAFSA tax data element and discuss:

- How it is used in the determination of Title IV financial aid eligibility;
- What common questions come up about the data element;
- Where on the tax return and the tax return transcript is the data element found.

But before we start looking at the data elements themselves, let's look at the sources you can use to review them.

What Documents are FAAs Likely to Use When Reviewing FAFSA Tax Data Submitted by a United States Based Contributor?

The tax data in the FAFSA can be verified using three sources:

- The FUTURE Act Direct Data Exchange (FA-DDX) Dataset
- Form 1040 and Schedules 1 and 3
- The Tax Return Transcript (TRT) (which is called the Return Transcript in the IRS's Get Transcript website)

The FUTURE Act Direct Data Exchange (FA-DDX)

Each contributor to the FAFSA is asked to approve the transfer of tax data from the Internal Revenue Service (IRS) to the FAFSA, and consent to certain uses of this data. If the contributor approves the transfer and consents to the data use provisions, the FA-DDX will attempt to match the contributor's IRS record to their portion of the FAFSA. If the tool matches the FAFSA contributor to their tax record, and the IRS determines that the data can be transferred to the FAFSA, the following data will be transferred:[1]

- Tax Year
- Tax Filing Status
- Adjusted Gross Income (AGI)
- Number of Exemptions
- Number of Dependents
- Income Earned from Work
- Taxes Paid
- Tax Exempt Interest Income
- IRA Deductions and Payments
- Educational Credits
- Untaxed IRA Distributions (without accounting for any rollovers
- Untaxed Pension Amounts (without accounting for any rollovers)
- Schedule C Net Profit/loss
- Separate indicators for Schedules A, B, D, E, F, H
- IRS Response Code

[1] See *Application and Verification Guide*, 2026-2027, Chapter 2

If the IRS is unable to match the contributor to an IRS record, or if the match is made but the IRS determines that it cannot transfer the contributor's data to the FAFSA, then the contributor will be asked to manually enter their tax data.

Data transferred into the FAFSA directly from the IRS, and many values derived from that data, are classified as Federal Tax Information (FTI). Section 6103 of the Internal Revenue Code (IRC) governs the use and disclosure of FTI, which is beyond the scope of this document. One of the rules defined in Section 6103 is that FTI must be clearly labeled when it is displayed. FTI in the ISIR or your information systems will be labeled with the "CUI//SP-TAX" (Controlled Unclassified Information/Specified Tax).

To drive this point home, the *FAFSA Tax Field Guide* will label any data that would be labeled in an ISIR, such as the IRS Response Code.

Important: The FA-DDX data are derived from the tax return as it was initially filed, with, perhaps, some modifications made by the IRS during processing. It will not reflect changes made if the taxpayer amends their tax return or if the IRS makes changes after it processes the initially filed tax return.

Not all tax data on the FAFSA that appear on the tax return can be brought into the FAFSA by the FA-DDX. Some FAFSA data are always entered manually. The data that are manually entered are:

- IRA rollover value
- Pension rollover value
- Foreign earned income exclusion (FEIE)
- Whether a refundable credit for coverage under a qualified health plan (QHP) was received in the base year or following year by a FAFSA contributor or family member
- Grants, scholarships, and/or AmeriCorps benefits included in the contributor's AGI
- Whether an Earned Income Credit (EIC) was received in base year or following year by a FAFSA contributor of family member
- Whether an EIC was received in the base year by the contributor

Form 1040 and Schedules 1 and 3

All tax related FAFSA data for a contributor can be found on that contributor's Form 1040 and Schedules 1 and 3. If you collect the contributor's tax return for use in V1 or V5 verification or to review it for conflicting information, it must be signed by the taxpayer or include a preparer's name and Preparer Tax Identification Number (PTIN).

The *Application and Verification Guide* has a table that shows where V1 and V5 verification items can be found on the tax returns. This table is reproduced in the Appendix here.

Tax Return Transcript (TRT)

The IRS produces various "transcripts" that taxpayers can obtain by accessing their online IRS account or submitting IRS Form 4506-T (or 4506-EZ for the basic tax return transcript) by mail. The "Tax Return Transcript" contains most of the data that appears on the taxpayer's *initial* tax return and may contain corrections made by the IRS during processing. Though commonly called the Tax Return Transcript, the IRS refers to this transcript as the "Return Transcript" in most places where a taxpayer may request one. Like the FA-DDX dataset, this transcript will not reflect changes made after the return is initially processed, even if the taxpayer files an amended return.

For information about how FAFSA contributors can obtain tax transcripts, see the Appendix here.

Federal Student Aid has published a matrix containing the line items in the transcript that matches the FAFSA tax data that must be verified if a student is selected for V1 or V5 verification. This is reproduced in the Appendix here.

Tax Document Questions and Answers

When Can I Rely on the FA-DDX Dataset?

FTI (the data labeled with "CUI//SP-TAX" and imported by the FA-DDX directly into the FAFSA) is the most authoritative FAFSA tax data available and should be relied on unless you have reason to suspect the contributor's tax return was filed incorrectly or you need to review information that is not included in the dataset. **If you have FTI in the ISIR and *no manually entered tax data that differs from the FTI values*, and you have no reason to doubt that the data are accurate, you should rely on the FTI exclusively for any FAFSA tax data it provided**.

If you have FTI in the ISIR, and the contributor has also provided manual data that differs from the values in the FTI fields, you have conflicting information. You must minimally find out why the contributor chose to provide manual data. See here for more information.

If your student was not selected for V1 or V5 verification and you have no reason to doubt that a contributor's tax return was properly filed, you should not collect the tax return or the tax return transcript: you have valid FAFSA data in the FTI section of the ISIR that is not subject to a conflicting information review.

If your student was selected for V1 or V5 verification, you can accept any data imported directly from the IRS as verified (again, unless you have a reason to doubt its accuracy and there are no values in the manual tax data section that are different from those in the FTI section). However, since the foreign earned income exclusions (FEIE) and the rollover values are V1/V5 verification items that are always manually entered (the FA-DDX does not bring the FEIE or rollover values into the FAFSA), you will need to collect additional information to verify them. See the section on the FEIE here and rollovers here.

When Should I Collect a Tax Return or a Tax Return Transcript?

Since FTI is the contributor's most authoritative tax data, you should rely on it, without collecting a tax return or tax return transcript, in most cases. It will be adequate for V1 and V5 verification in the absence of a reason to question its accuracy and the absence of an FEIE or rollovers. *Requesting a tax return transcript when you have FA-DDX data is a waste of your time and the contributor's time, since the FA-DDX data supersedes the data in the transcript*.

However, there are circumstances when you are required to collect a tax return or tax return transcript, even if you have FA-DDX data. These include:

- If the applicant was selected for V1 or V5 verification, and the IRS

    - was unable to match the contributor's tax record to the FAFSA **or**
    - was able to match the tax record to the FAFSA but was unable to provide tax information;

    and

    - that contributor reported that they filed a Form 1040 or 1040-NR;

    then you must collect a signed copy of the contributor's Form 1040 and applicable schedules, or a tax return transcript, because you don't have any FTI that is considered verified.

    If the applicant was not selected for V1/V5 verification, you do not need to verify manual data, even if there is no FTI, unless you have a reason to question the accuracy of the manually reported data.

- If the student was selected for V1 or V5 verification, and a contributor has reported a non-zero value for the FEIE, you will need the tax return, specifically Schedule 1, or the tax return transcript to verify the FEIE

  For non-selected students, you do not need to verify the value of the FEIE unless you have reason to doubt its accuracy (for example, the contributor resides in the United States but reports a significant FEIE). See here.

- If the student was selected for V1 or V5 verification, and a contributor has reported a non-zero value for one or both of the rollovers, you will need a signed statement from the contributor indicating that they conducted a rollover in the base year and states the value of the rollover, or a copy of the tax return or tax return transcript with the word "rollover" written next to the rollover value. This statement must be signed and dated by the tax filer or one of the tax filers on a joint return.

  For non-selected students, manually reported rollovers do not need to be verified if there is no reason to doubt their accuracy.

- If the student was selected for V1 or V5 verification, and if the FA-DDX imported a jointly filed tax return, but the contributor's marital status is divorced, separated, or widowed, you will need to get a copy of the Form 1040 and applicable schedules or the tax return transcript. The FTI may contain information from a taxpayer who is not required to contribute to the FAFSA, and you will need to go line-by-line through the tax return to extract from it only the FAFSA contributor's share of each FAFSA data element. The FA-DDX dataset is not detailed enough to complete this process.

  For non-selected students, see the first bullet of this section.

- If you have learned that a contributor to a FAFSA is a victim of tax-related identity theft, then you are required to collect a signed copy of their tax return to ensure that the data in the ISIR are from them and was not created by the identity thief. **In this case, neither the FA-DDX dataset nor the tax return transcript is valid for V1 or V5 verification because they may contain information made up by the identity thief**. The tax return is the only document under the full control of the contributor and must be used when the contributor has been a victim of tax-related identity theft.

  You should collect the signed copy of the tax return even for contributors to non-selected applications.

- If you learn that a contributor to a V1 of V5 selected FAFSA amended their tax return, you will need to collect a signed copy of their 1040-X and supporting schedules. Neither the FA-DDX nor the tax return transcript will be updated with the data from the amended return. If the contributor is unable to provide a copy of the 1040-X (either because they did not save a copy or because the IRS changed their return), you can collect the **Account Transcript**, which will contain the AGI from the amended return, the filing status from the amended return, and a means to calculate the income tax paid from the amended return. No other FAFSA data from an amended return appears on the account transcript

- If the contributor filed both a Form 1040 and a territory tax return, the FTI section of the FAFSA will contain only the income and tax from the Form 1040. See here.

Which Should I Collect When One is Needed: The Tax Return or the Tax Return Transcript?

If you need to collect the tax return or the tax return transcript, collecting the tax return will be simpler for the contributor and for you. A best practice is to collect the tax return if it is available and collect the tax return transcript only when you have reason to doubt the accuracy or acceptability of the tax return. Therefore, you should only collect the tax return transcript in these cases (this list may not be exhaustive):

- If the contributor did not save a copy of their tax return as filed, then you are required to ask for the tax return transcript. *A replica of the tax return is not acceptable for verification*. If you receive a tax return that looks incomplete or does not look like one that could have been filed with the IRS, you should request the tax return transcript. This includes paper tax returns with wet ink signatures, joint returns with only one signature, or dates in the signature lines that don't make sense, or with addition errors.
- If you suspect that the tax return you received has trivial errors (especially math errors or that the contributor claimed a credit that you don't think they were eligible for), the tax return transcript might incorporate corrections made by the IRS.

What Should I Do if I have FTI for a Contributor Who also Provided Manual Tax Data?

If the manual data is different from the FTI, you must, minimally, determine why the contributor chose to enter the manual data. It is possible that the explanation lets you know that the FTI data are not usable and manual data is necessary. You may be able to do so with data contained within the ISIR but may need to reach out to the contributor for an explanation. Here are some scenarios to help clarify the issue:

Situations where the data in the FAFSA is adequate to explain the use of manual data and there is no need to reach out to the contributor for information:

- If the FTI indicates that the contributor CUI//SP-TAX filed a tax return using the married-filing-jointly status CUI//SP-TAX, but their marital status is divorced, separated, or never married, you have an explanation within the ISIR that explains why the contributor provided manual data and why the FTI are not usable in the eligibility calculations. The CUI//SP-TAX married filing jointly CUI//SP-TAX tax return contains income and asset information from a person who is not required to contribute to the FAFSA, and we can assume, unless the numbers do not make any sense, that the manual data is data for the FAFSA contributor only.

  If the student was not selected for V1 verification, you do not need to take any action. You know that the FTI are not the correct data to be used in the aid calculations, and the contributor was instructed to report only their share of the FAFSA data. In the same sense that you do not need to check the answers of manually entered data for non-selected applicants without FTI and without a marital status – filing status mismatch, you do not need to check data that should be in the FAFSA because you have determined that the FTI cannot use used in the eligibility determinations.

If there are no mismatches between the CUI//SP-TAX filing status CUI//SP-TAX and the contributor's marital status, you must ask the contributor what the source of the manual data is:

- If the contributor states that they amended their tax return, and the manually entered data are from the amended tax return, you have an acceptable explanation about why the manual data is correct, and the FTI is incorrect. Unless the student is selected for V1 or V5 verification, or the manual values do not make sense, you do not need to take any further action.

- If the contributor gives you an explanation that lets you know that the manual data are not correct, you will have to take further action. For example, if they explain that they put 2025 tax data into the FAFSA because 2024 was a good year and had more income than 2025, then you have learned that the manual data are not the correct data to go into the aid calculations.

  IMPORTANT: Unfortunately, if you have incorrect manual data in an ISIR that also has FTI, you will need to get a copy of the contributor's tax return or tax return transcript and use those forms to correct the data entered by the contributor to the answers from the tax return. You cannot simply copy the FTI data and input it into the manual data section of the ISIR, because FTI data must be labeled with the CUI//SP-TAX code, and the manual data sections in the ISIR are not labeled. You cannot de-label FTI and must obtain the corrective data from a different source.

FAFSA Tax Data (Verification Items)

For each FAFSA data element that is derived from the tax return, we are providing images to help you locate the data on both the tax return and tax return transcript. We will discuss how the item is used in the SAI formula and Pell Eligibility assessments. And we will answer common questions about the data element that Robert Weinerman has been asked through his email helpdesk service.

Adjusted Gross Income (AGI)

Adjusted gross income

$, ,

IRS Form 1040 (or 1040-NR): line 11

2024 IRS Tax Return

Form 1040, Page 1, Line 11

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a Form W-2, see instructions.

1a	Total amount from Form(s) W-2, box 1 (see instructions)				1a	76,601
b	Household employee wages not reported on Form(s) W-2				1b	
c	Tip income not reported on line 1a (see instructions)				1c	
d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)				1d	
e	Taxable dependent care benefits from Form 2441, line 26				1e	
f	Employer-provided adoption benefits from Form 8839, line 29				1f	
g	Wages from Form 8919, line 6				1g	
h	Other earned income (see instructions)				1h	0
i	Nontaxable combat pay election (see instructions)	1i				
z	Add lines 1a through 1h				1z	76,601
2a	Tax-exempt interest	2a	1,543	b Taxable interest	2b	7,499
3a	Qualified dividends	3a	9,578	b Ordinary dividends	3b	13,507
4a	IRA distributions	4a	1,621	b Taxable amount	4b	1,018
5a	Pensions and annuities	5a		b Taxable amount	5b	0
6a	Social security benefits	6a		b Taxable amount	6b	
c	If you elect to use the lump-sum election method, check here (see instructions)					
7	Capital gain or (loss). Attach Schedule D if required. If not required, check here				7	13,586
8	Additional income from Schedule 1, line 10				8	0
9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your **total income**				9	112,211
10	Adjustments to income from Schedule 1, line 26				10	0
11	Subtract line 10 from line 9. This is your **adjusted gross income**				11	112,211
12	**Standard deduction or itemized deductions** (from Schedule A)				12	14,600
13	Qualified business income deduction from Form 8995 or Form 8995-A				13	95
14	Add lines 12 and 13				14	14,695
15	Subtract line 14 from line 11. If zero or less, enter -0-. This is your **taxable income**				15	97,516

Attach Sch. B if required.

Standard Deduction for-

- Single or Married filing separately, $14,600
- Married filing jointly or Qualifying surviving spouse, $29,200
- Head of household, $21,900
- If you checked any box under *Standard Deduction,* see instructions.

Adjusted Gross Income is the most important value on both the tax return and the FAFSA. But in spite of its importance, it is not necessarily a good indicator of a taxpayer or FAFSA contributor's financial standing. While it includes all taxable income, the tax code allows for the deferral of taxation on retirement plan contributions, employer sponsored health insurance payments, etc., few of which end up in the AGI or on the FAFSA. A married couple, each of whom earn $50,000.00 in wages, could potentially have an AGI as large as $100,000.00 or as low as $0.00 depending on how much they set aside in their retirement plans and how expensive their share of their health insurance premiums are.

AGI can also underestimate a taxpayer's financial strength because the tax code allows business owners who have experienced tax losses in the past to deduct those losses against current positive business income (this is called a Net Operating Loss (NOL) carryforward). The FAFSA Simplification Act lists, among its examples of allowable professional judgments Financial Aid Administrators can consider using, *an unusual amount of claimed losses against income on the Federal tax return that substantially lower adjusted gross income, such as business, investment, or real estate losses*. The FAFSA Simplification Act accepts that simplification can lead to imperfect outcomes, and has chosen professional judgment as the tool that FAAs can use in individual cases to address the egregious outliers.

2024 IRS Tax Return Transcript

Look for the "Adjustments to Income" section of the transcript. The relevant transcript line is "Adjusted gross income per computer," which is the last line in this section of the transcript and sits just above the "Tax and Credits" section of the transcript.

Adjustments to Income

Educator expenses:	$0.00
Educator expenses per computer:	$0.00
Reservist and other business expense:	$0.00
Health Savings Account deduction:	$0.00
Health Savings Account deduction per computer:	$0.00
Moving expenses (Form 3903):	$0.00
Self-employment tax deduction:	$0.00
Self-employment tax deduction per computer:	$0.00
Self-employment tax deduction verified:	$0.00
Keogh/SEP contribution deduction:	$0.00
Self-employment health insurance deduction:	$0.00
Early withdrawal of savings penalty:	$0.00
Alimony paid SSN:	
Alimony paid:	$0.00
Repayment clean vehicle credit:	$0.00
IRA deduction:	$0.00
IRA deduction per computer:	$0.00
Student loan interest deduction:	$0.00
Student loan interest deduction per computer:	$0.00
Student loan interest deduction verified:	$0.00
Total other payment refundable credit per computer:	$0.00
Total other payment refund verified:	$0.00
Other adjustments:	$0.00
Archer MSA deduction:	$0.00
Archer MSA deduction per computer:	$0.00
Total adjustments:	$0.00
Total adjustments per computer:	$0.00
Adjusted gross income:	$112,211.00
Adjusted gross income per computer:	$112,211.00

Tax and Credits

65 or over:	No
Blind:	No
Spouse 65 or over:	No
Spouse blind:	No
Standard deduction per computer:	$14,600.00

How is AGI Used in the Determination of an Applicant's Title IV Aid Eligibility?

The AGI is the core income value used as the base of the income calculations in the SAI formula and plays a role in three different aspects of the eligibility calculations:

- AGI is the core income value from which the calculation of a contributor's total income starts. It is often the only income that goes into the SAI formula (it is not uncommon for a contributor to have no untaxed income to report in the FAFSA).

- AGI is added to the Foreign Earned Income Exclusion (FEIE) to determine an applicant's eligibility for Maximum or Minimum Pell Grant. This has changed from 2025-2026, when the AGI alone was used to make these eligibility determinations.
- If the AGI of the primary contributor is less than $60,000, the contributor did not file Schedules A, B, D, E, F, or H with their tax return, and, if they filed one or more Schedules C, the total net business income/loss from their Schedules C is not greater than $10,000 or less than –$10,000, then the applicant and their contributors are not required to report assets when completing the FAFSA.

  Note that a dependent student will not be exempt from asset reporting if their parent(s) 1) live outside of the United States or its territories or 2) did not file a federal tax return for reasons other having less income than the filing threshold for their imputed filing status. See Chapter 3 of the 2026-2027 Application and Verification Guide for more information.

How Does a Contributor Who Filed a Territory Tax Return Determine the FAFSA AGI?

Instructions for contributors who filed tax returns with the United States territories and freely associated states can be found here. All territories use the United States dollar as their currency so there will be no currency conversions necessary when reviewing territory tax returns.

Residents of **Puerto Rico** use Form 482.0, the *Planilla de Contribución Sobre Ingresos de Individuos Año Contributivo 2024 (Individual Income Tax Return Tax Year for Calendar Year 2024)* to file their tax returns. Puerto Rico tax returns cannot be filed on paper – they must be filed electronically. You may receive a tax return with a watermark that say the return cannot be filed. This return is acceptable as long as it is properly signed.

FSA has published that the AGI from a **Puerto Rico** tax return appears on Form 482.0, page 2, line 5. The Income Tax Paid appears on Form 482.0, page 3, line 26.

Residents of the **United States Virgin Islands** use the United States Form 1040 to file their tax returns. The Form 1040-VI has been retired.

Residents of **Guam** file the *Guam Individual Tax Return*, which is a version of Form 1040 specific to Guam. It is very similar to the federal 1040 – it even includes IRS labeling and OMB codes. The primary difference between the Guam 1040 and the federal 1040 is the Guam branding at the upper right-hand corner of page 1 of the Guam Form.

Form **1040**	Department of the Treasury—Internal Revenue Service **Guam Individual Income Tax Return**	20**24**

Residents of **American Samoa** file a *Treasury Form 390*, which is similar to the pre-2018 version of Form 1040. The AGI appears on line 33. *Note: this link points to a downloadable Excel file.*

Form **390**	**Department of Treasury—American Samoa Tax Division** **A.S. Individual Income Tax Return**	20**24**

Residents of the **Commonwealth of the Northern Mariana Islands** file Form 1040CM, the *Northern Marianas Territorial Income Tax Return*, which is similar to the United States 1040, but separates out income directly related to the Mariana Islands from other income. See the next question for details.

Form **1040CM**	Department of Finance – Division of Revenue and Taxation Commonwealth of the Northern Mariana Islands **Northern Marianas Territorial Income Tax Return**	Check ☐ if amended Return Attach Form 1040CM-X	20**24**

What if a Contributor Files Tax Returns to Both the United States and One of its Territories?

Some contributors to an applicant's FAFSA may file tax returns to both the Internal Revenue Service (IRS) and their territorial tax authority. This can occur if an individual moves from the states to a territory during the tax year, if an individual earns income from state-based US sources but lives in a territory, if a US serviceperson's legal state of residence is a territory (this is similar to a serviceperson being required to file a federal and state tax return if their legal residence is a state), etc.

See the *Puerto Rico and Other U.S. Territory Residents* section in Chapter 2 of the 2026-2027 *Application and Verification Guide* for more information where this issue is discussed.

You must address this issue if you become aware that the contributor filed both a Form 1040 and a territory tax return. If you do become aware of this, then you should evaluate the two returns and determine which income should be used to determine the applicant's financial aid eligibility. GEN-23-118 is more directive, instructing you to use the territory tax return data even if the data from Form 1040 appears in the FTI section of the ISIR. You may decide also that the income from both returns is appropriate to use in the FAFSA.

If you are using the 1040CM from the Commonwealth of the Northern Mariana Islands, note that the income on Form 1040CM is split between income "within" the Commonwealth and "without". There is also a total income column. The AGI on Form 1040CM is based on worldwide income, so should be the correct value for the FAFSA. If you review both a Form 1040CM and Form 1040, it is likely that all of the Form 1040 income is included in the Form 1040CM AGI.

What if a Contributor Files Both a Form 1040 and a Tax Return to Another Nation?

The United States tax return is the return of record and should be used to complete the FAFSA. Form 1040 is filed by United States citizens, permanent residents, and resident noncitizens and should include the taxpayers' worldwide income. While it is possible that some of their worldwide income is not included in the Form 1040 AGI, the excluded income should be included on the FAFSA as the foreign earned income exclusion (FEIE), and all worldwide income is therefore captured on the FAFSA.

What if a Contributor Files Both a Form 1040-NR and a Tax Return to Another Nation?

Form **1040-NR** Department of the Treasury—Internal Revenue Service **U.S. Nonresident Alien Income Tax Return** 20**24**

At this time, Federal Student Aid (FSA) has not provided any guidance about what to do in this situation, which is different from the situation described in the prior question about territory returns. Form 1040-NR is filed only by nonresident noncitizens of the United States who have income that was earned within the United States or from United States source, engage in trade or business within the United States, or is otherwise "effectively connected to the United States." It will not include income that was earned or obtained outside of the United States that has no connection to the United States.

For example, let's consider a Title IV aid eligible undergraduate student whose nonresident, noncitizen parents purchased a residential property near the student's school. The student resides at this property with two housemates, and the housemates pay rent to the student's parents. The parents both live in and earn income in their home country, where they are citizens, and do not spend much time in the United States.

In this example, because the parents are both nonresidents and noncitizens of the United States, the income they earn in their home country is not subject to taxation by the United States but may be taxed by their home country. But since the rental property is in the United States, the income the parents are earning there is connected to the United States and is subject to taxation by the United States.

The parents will be required to file a Form 1040-NR to report their rental income and expenses, to determine if they owe any United States federal income tax. The Form 1040-NR will not include their earned income, since the United States has no claim on income earned outside of the United States by nonresident noncitizens.

Since the FA-DDX recognizes Form 1040-NR and can match 1040-NR filers who have Social Security Numbers or (eventually) Individual Taxpayer Identification Numbers with their FAFSA record, it can import data from a Form 1040-NR into the FAFSA. But since Form 1040-NR does not include the contributor's worldwide income, it may understate the total income that should be reported on the FAFSA.

And since the 2026-2027 FAFSA does not ask people if they filed a non-US tax return unless they state that they did not file a Form 1040 or 1040-NR, there is no way for FAAs to know that the FTI they received from the Form 1040-NR does not include foreign income. In fact, the ISIR does not have a field letting FAAs know which of Form 1040 or Form 1040-NR (or 1040-SS) was filed by the contributor.

FSA has not provided FAAs with any guidance about how to address this situation. If an FAA determines, outside of the FAFSA, that a contributor has filed a 1040-NR and another country's tax return in the same year, or if they filed a Form 1040-NR and had earned foreign or nongovernmental organization income that is not reported on that 1040-NR, the closest guidance we have is the guidance discussing contributors who file both a United States territory tax return and a Form 1040 see here. While technically not relevant to 1040-NR filers, practically, it would make sense to adjust the manual FAFSA data to include all of the contributor's worldwide income (and tax liability).

How Should Foreign Non-filers Answer the Tax Questions in the FAFSA?

The FAFSA Processing System (FPS) treats two sets of contributors to a FAFSA as tax-filers, even if they state on the FAFSA that they did not file any tax return:

- Contributors who state that they did not file Form 1040, had earned income or worked for an international organization, and did not file a foreign tax return;

  AND

- Contributors who state that they did not file Form 1040, did not have earn any income or were not required to file a tax return because there total income was less than the threshold for filing a tax return under the Internal Revenue Code, and do not live in the United States (any of the fifty states, the District of Columbia, and the US territories, although the *FAFSA Specifications Guide* does not list the District of Columbia as a place a contributor can live and be considered a United States resident).

See pages 12 and 13 of the 2026-2027 *FAFSA Specifications Guide*, Volume 5, *Edits and Rejects*, for details.

These contributors will be treated as though they filed a tax return and will be asked to answer the same set of questions that tax filers answer.

Instructions on how to complete the tax section of the FAFSA when an individual is being treated as a tax filer even though they did not file any tax return can be found here (start at the fourth paragraph). The AGI should be constructed as the sum of any income that would be included on a Form 1040, if the contributor had filed one.

What is Form 1040-SS and is it Valid for V1 or V5 Verification?

Form **1040-SS** Department of the Treasury Internal Revenue Service	**U.S. Self-Employment Tax Return** **(Including the Additional Child Tax Credit for Bona Fide Residents of Puerto Rico)** **U.S. Virgin Islands, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, or Puerto Rico** **For the year Jan. 1–Dec. 31, 2024, or other tax year beginning , 2024, and ending , 20**	OMB No. 1545-0074 **2024**

Form 1040-SS, *U.S. Self-Employment Tax Return*, is used by residents of the United States territories to calculate and pay their self-employment tax, or less commonly, by residents of Puerto Rico to claim the additional child tax credit. It is not an income tax return and does not contain all the data necessary to perform V1 or V5 verification. It is not valid for verification.

Unfortunately, Form 1040-SS is treated as a standard Form 1040 by the FA-DDX. The FA-DDX will bring data from Form 1040-SS into the FAFSA if it is able to match the contributor's FAFSA and IRS records. **If the FA-DDX brings data into the FAFSA from Form 1040-SS, the values will all be 0s except for the income tax paid, which will be the self-employment tax from the Form 1040-SS**. A best practice would be to treat FTI datasets that are all zeros except for the income tax paid as conflicting information, and investigate whether the contributor filed a Form 1040-SS and a territory tax return, in which case the territory tax return information should be manually entered into the FAFSA as a correction.

Note: Form 1040-PR, which was a Spanish version of Form 1040-SS has been retired. Former users of this form now use Form 1040-SS.

Is it Conflicting Information if a Foreign Non-filer Reports a Non-zero Answer for Income Earned from Work but a 0 for AGI?

It would be a best practice to treat this as conflicting information. See here. Since the foreign non-filer is told to include their earned income in their AGI, a 0 AGI with a non-zero earned income is almost certainly incorrect.

What Changes Can We Expect Related to AGI in 2027-2028?

Starting in 2027-2028, contributors to a FAFSA will be asked whether they filed a tax return with a territory of the United States even if they answer that they filed a federal tax return. This means that FAAs will be able to tell there is a territory tax return even if the FA-DDX imports a Form 1040 or Form 1040-SS.

If a contributor filed both a federal tax return and a territory tax return, they will be instructed to manually enter data into two new fields: "combined adjusted gross income" and "combined income tax paid." These fields should capture the sum of the AGIs from both tax returns, adjusted for any income that appears on both forms.

FSA is likely to add these fields to those that need to be verified if a student is selected for V1 or V5 verification.

Income Tax Paid

2024 IRS Tax Return

Form 1040, Page 2, Line 24

Income tax paid

$ [ ][ ][ ], [ ][ ][ ], [ ][ ][ ]

IRS Form 1040: line 24. If negative, enter a zero.

Form 1040 (2024)				Page 2
Tax and Credits	16	Tax (see instructions). Check if any from Form(s): 1 ☐ 8814 2 ☐ 4972 3 ☐ ________	16	14,885
	17	Amount from Schedule 2, line 3	17	0
	18	Add lines 16 and 17	18	14,885
	19	Child tax credit or credit for other dependents from Schedule 8812	19	
	20	Amount from Schedule 3, line 8	20	395
	21	Add lines 19 and 20	21	395
	22	Subtract line 21 from line 18. If zero or less, enter -0-	22	14,490
	23	Other taxes, including self-employment tax, from Schedule 2, line 21	23	0
	24	Add lines 22 and 23. This is your **total tax**	24	14,490

2024 IRS Tax Return Transcript

Look for the "Other Taxes" section of the transcript. The relevant transcript line is "Total tax liability taxpayer figures per computer." It is the last line in this section and sits just above the "Payments" section. On some transcripts this line may instead use this text: "Total tax liability TP figures per computer."

If the "Total tax liability taxpayer figures per computer" is a negative number, enter a 0 into the ISIR.

Other Taxes

Self employment tax:	$0.00
Self employment tax per computer:	$0.00
Social Security and Medicare tax on unreported tips:	$0.00
Social Security and Medicare tax on unreported tips per computer:	$0.00
Tax on qualified plans Form 5329 (PR):	$0.00
Tax on qualified plans Form 5329 per computer:	$0.00
Individual Retirement Account File (IRAF) tax per computer:	$0.00
Taxpayer tax figures (reduced by IRAF) per computer:	$14,490.00
Individual Master File (IMF) total tax (reduced by IRAF) per computer:	$14,490.00
Total other taxes per computer:	$0.00
Unpaid Federal Insurance Contributions Act (FICA) on reported tips:	$0.00
Form 8959 additional Medicare tax:	$0.00
Form 8960 net investment income tax:	$0.00
Interest on deferred tax:	$0.00
Total other taxes:	$0.00
Recapture tax (Form 8611):	$0.00
Household employment taxes:	$0.00
Household employment taxes per computer:	$0.00
Interest due on installment:	$0.00
Schedule 2 Part 1 Form 4255 recapture:	$0.00
Form 4255 excessive payments:	$0.00
Net elective payment election:	$0.00
Excess Social Security tax withheld verified:	$0.00
Excess Social Security tax withheld per computer:	$0.00
Total additional taxes:	$0.00
Total assessment per computer:	$14,490.00
Total tax liability taxpayer figures:	$14,490.00
Total tax liability taxpayer figures per computer:	$14,490.00

Payments

Federal income tax withheld:	$13,548.00
Prior year advanced credit:	$0.00

How is the Income Tax Paid Used in the Determination of an Applicant’s Title IV Aid Eligibility?

Income Tax Paid is subtracted from the total income as part of the calculation of the Available Income.

How Does a Contributor Who Filed a Foreign Tax Return Determine the Income Tax Paid to Use on the FAFSA?

The information provided in the FAFSA help section for filers of foreign tax returns (see here) does not specifically mention Income Tax Paid. The *Application and Verification Guide* tells financial aid administrators this:

> *For income tax paid, include any income taxes you paid on income in your AGI. If your AGI only shows your net income after paying taxes, enter zero for income tax paid.*

Remember, both foreign tax filers and foreign non-filer contributors who are required to report income on the FAFSA are instructed to construct an AGI out of the incomes that make up the United States AGI. See here.

If the return was filed in a currency other than United States dollars, then the contributor is instructed to use the exchange rate published by the United State Federal Reserve on the date nearest to the date they complete the FAFSA. The FAFSA points to this website.

If you are using a foreign tax return to complete V1 or V5 verification or resolve conflicting information, you should use the currency conversion rate as close to the date the contributor’s portion of the FAFSA was submitted, not the rate at the time you are reviewing the file. If you feel that it would be more appropriate to use a more current exchange rate, you must use professional judgment to do so. The Federal Reserve’s historical currency conversion tables can be found here.

How Does a Contributor Who Filed a Territory Tax Return Determine the Income Tax Paid to Use on the FAFSA?

Most of the territories use tax returns that are very similar to Form 1040, and the income tax value to use will appear on their version of Form 1040, line 24 (Form 390, line 57c for American Samoan filers).

For Puerto Rico tax returns, FSA has determined that Form 482.0, line 26, is the correct tax line for income tax paid.

See the AGI Section of this document for information about the other territories.

What Changes Can We Expect Related to Income Tax Paid in 2027-2028?

Starting in 2027-2028, contributors to a FAFSA will be asked whether they filed a tax return with a territory of the United States even if they answer that they filed a federal tax return. This means that FAAs will be able to tell there is a territory tax return even if the FA-DDX imports a Form 1040 (or Form 1040-SS).

If a contributor filed both a federal tax return and a territory tax return, they will be instructed to manually enter data into two new fields: “combined adjusted gross income” and “combined income tax paid.” These fields should capture the sum of the AGIs from both tax returns, adjusted for any income that appears on both forms.

FSA is likely to add these fields to those that need to be verified if a student is selected for V1 or V5 verification.

Income Earned from Work

Income earned from work

$ ___,___,___,___

IRS Form 1040 (or 1040-NR): line 1z + Schedule 1: lines 3 + 6.
If a tax form line's value is negative, treat it as zero in your calculation.

The Income Earned from Work question on the FAFSA has three components:

- *Form 1040, line 1z*
- *Schedule 1, line 3* (if this value is negative, treat it as $0 and do not subtract the negative number)
- *Schedule 1, line 6* (if this value is negative, treat it as $0 and do not subtract the negative number)

These values come directly from Form 1040 and Schedule 1 and are unambiguous.

2024 IRS Tax Return

Form 1040, Page 1, Line 1z **+** *Schedule 1: Line 3* **+** *Schedule 1, line 6. If a tax form line's value is negative, treat it as zero in your calculation.*

Form 1040, Page 1

Income	**1a**	Total amount from Form(s) W-2, box 1 (see instructions)	**1a**	76,601
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.	**b**	Household employee wages not reported on Form(s) W-2	**1b**	
	c	Tip income not reported on line 1a (see instructions)	**1c**	
	d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)	**1d**	
	e	Taxable dependent care benefits from Form 2441, line 26	**1e**	
If you did not get a Form W-2, see instructions.	**f**	Employer-provided adoption benefits from Form 8839, line 29	**1f**	
	g	Wages from Form 8919, line 6	**1g**	
	h	Other earned income (see instructions)	**1h**	0
	i	Nontaxable combat pay election (see instructions) **1i**		
	z	Add lines 1a through 1h	**1z**	76,601

SCHEDULE 1 (Form 1040)

Department of the Treasury Internal Revenue Service

Additional Income and Adjustments to Income

Attach to Form 1040, 1040-SR, or 1040-NR.

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

OMB No. 1545-0074

2024

Attachment Sequence No. **01**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR | **Your social security number**

For 2024, enter the amount reported to you on Form(s) 1099-K that was included in error or for personal items sold at a loss . . . 0

Note: The remaining amounts reported to you on Form(s) 1099-K should be reported elsewhere on your return depending on the nature of the transaction. See *www.irs.gov/1099k*.

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes	**1**	0
2a	Alimony received	**2a**	
b	Date of original divorce or separation agreement (see instructions):		
3	Business income or (loss). Attach Schedule C	**3**	0
4	Other gains or (losses). Attach Form 4797	**4**	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	**5**	
6	Farm income or (loss). Attach Schedule F	**6**	0

2024 IRS Tax Return Transcript

All three of the components of the “Income Earned from Work” FAFSA question appear in the “Income” section of the transcript. The relevant transcript lines are:

- *“Total wages”*
- *“Business income or loss (Schedule C) per computer”*
- *“Farm income or loss (Schedule F) per computer”*

If any of these values are negative, treat them as though they were zero.

Income	
Total wages:	$76,601.00
Form W-2 wages:	$76,601.00
Taxable interest income (Schedule B):	$7,499.00
Tax-exempt interest:	$1,543.00
Ordinary dividend income (Schedule B):	$13,507.00
Qualified dividends:	$9,578.00
Refunds of state/local taxes:	$0.00
Alimony received:	$0.00
Business income or loss (Schedule C):	$0.00
Business income or loss (Schedule C) per computer:	$0.00
Capital gain or loss (Schedule D):	$13,586.00
Capital gains or loss (Schedule D) per computer:	$13,586.00
Other gains or losses (Form 4797):	$0.00
Total IRA distributions:	$1,621.00
Taxable IRA distributions:	$1,018.00
Total pensions and annuities:	$0.00
Taxable pension/annuity amount:	$0.00
Additional income:	$0.00
Additional income per computer:	$0.00
Refundable credits per computer:	$0.00
Refundable education credit per computer:	$0.00
Qualified business income deduction:	$95.00
Rent/royalty/partnership/estate (Schedule E):	$0.00
Rent/royalty/partnership/estate (Schedule E) per computer:	$0.00
Rent/royalty income/loss per computer:	$0.00
Estate/trust income/loss per computer:	$0.00
Partnership/S-Corp income/loss per computer:	$0.00
Farm income or loss (Schedule F):	$0.00
Farm income or loss (Schedule F) per computer:	$0.00
Unemployment compensation:	$0.00

How is Income Earned from Work Used in the Determination of an Applicant’s Title IV Aid Eligibility?

Income Earned from Work is used to determine two allowances against income in the SAI formula:

- The Payroll Tax Allowance (which consists of two parts: a calculation to determine the Medicare’s Hospital Insurance (HI) Program Tax Rate and a second calculation to determine the Old-age, Survivors, and Disability Insurance (OASDI) Tax Rate. This allowance is designed to offset the contributor’s income by an *approximation* of the amount of the employment taxes that they paid as a result of their earning income.
- The Employment Expense Allowance (EEA).

Why Did My Student's SAI Increase after I Reduced Their Parent's Income Earned from Work During a Professional Judgement?

The Income Earned from Work value is not, itself, a component of the total income for a contributor. It is only used to calculate *allowances against income*. If you only reduce the Income Earned from Work value, you will reduce *allowances*, which are subtracted from the total income in the SAI formula. When you subtract a smaller number from a value, the result is a larger number than the original resultant value.

Income earned from work is a component of the AGI, and it is included in the total income as a component of the AGI. If you adjust earned income during a professional judgment, you should reduce both the Income Earned from Work and the AGI, and a best practice would be to adjust the Income Tax Paid as well to reflect the reduced tax that would have been owed had the base year income been lower.

How Does a Contributor Who Filed a Foreign Tax Return Determine Their Answer to the FAFSA Income Earned from Work Question?

The contributor should add up all of their earned income, doing their best to match the values that would appear on Form 1040, line 1z, Schedule 1, line 3, and Schedule 1, line 6, as if they filed a Form 1040 and related schedules:

- Form 1040, line 1z is predominantly wages or salaries. It captures the income paid to someone who is not self-employed.
- Schedule 1, line 3 is net income from self-employment. This is calculated on one or more Schedules Cs in the United States and should be the non-US business owner's net income from their business(es). Net income means income after expenses.
- Schedule 1, line 6 is net farm income. This is calculated on one or more Schedules F in the United States and should be the non-US farmer's net income from their farms. Net income means income after expenses.

My Institution Collects W-2s that We Use in Our Institutional Analysis. Since the Actual Amount of Social Security and Medicare Tax Paid is Based on W-2, Box 5, Can We Use W-2, Box 5 Instead of Form 1040, Line 1z for the Wage Component of the Income Earned from Work Question?

No. The allowance is understood to be an approximation. Note also that the FAFSA Simplification Act requires all income data to be derivable from the tax return. W-2, box 5 does not appear on the tax return, so it cannot be used as a component of the Income Earned from Work answer.

Since the Income Earned from Work is Used to Offset a Contributor's Income by the Amount of the Employment Tax they Paid, Can We Zero Out the Income Earned from Work Answer if the Contributor Lives in a Foreign Country and/or is Not Paying into Social Security or Medicare?

No. All contributors who earned income should report their income as defined in the FAFSA instructions, and if you are reviewing a file, you should use that definition even if the contributor did not pay employment taxes. All contributors with earned income will and should receive the earned income-based allowances as a result. There is no authority to zero out the earned income or to zero out these allowances.

Is it Conflicting Information if a Foreign Non-filer Reports a Non-zero Answer for Income Earned from Work but a 0 for AGI?

Since the instructions for a foreign non-filer who is being asked to report income information on their FAFSA specify that the AGI should include “all wages” and “business income,” it is unlikely that a contributor who reports having earned income, but a $0 AGI, has correctly answered the AGI question. And since the AGI is so critical to the SAI calculation and Pell eligibility determinations, an incorrect AGI can easily lead to an incorrect SAI or Pell award.

It would be a best practice to investigate these situations as conflicting information.

Should Nontaxable Combat Pay (Form 1040, line 1i) be added to Form 1040, line 1z as part of the income earned from work?

No. Although there is no post-FAFSA Simplification guidance about this question, there was guidance available prior to FAFSA Simplification that likely still applies. FSA stated that because nontaxable combat pay is not subject to social security or Medicare taxes, it should not be included as income earned from work on the FAFSA.

Note that this is the case even though the allowances based on income earned from work are just estimates of the actual employment taxes paid.

Can I Use Professional Judgment to Include the Income in Box 14 of Schedule K-1 (Form 1065) in the Income Earned from Work Calculation?

There is nothing specifically prohibiting this. However, you would need to follow the rules for special circumstance professional judgments: collect documentation of both the value you want to include in the Income Earned from Work and the specific reason why, in the specific applicant’s case, not including this income in the Income Earned from Work impacts the specific student’s ability to cover their college costs. Then document in the student’s record why you chose to use professional judgment in this way.

You cannot do this for every student with a contributor who owns a partnership. It is a good practice when using professional judgment to ask yourself what would have to be different about the student’s situation that would lead you to not do the professional judgment. If you cannot identify a situation in which you would not include the partnership income in the Income Earned from Work, you have created a class of students for whom you will always do a professional judgment, and this is not permitted.

Also, remember that the change in the definition of Income Tax paid to Form 1040, line 24 from Form 1040, line 22 (during the 2024-2025 academic year) brought the actual amount of self-employment tax paid into the allowances. This means that even though partners are not getting the allowances that are based on Income Earned from Work, their Income Tax Paid allowance includes all of their self-employment tax, which is about twice what the calculated allowance would be.

Untaxed Portions of IRA Distributions and Untaxed Portions of Pensions

Untaxed portions of IRA distributions
$ ___,___,___,___
IRS Form 1040: line 4a minus 4b

Untaxed portions of pensions
$ ___,___,___,___
IRS Form 1040: line 5a minus 5b

In this section, the images from the FAFSA (at right), tax return, and tax return transcript refer only to the untaxed portion of the IRA distribution and untaxed portion of the pension distribution that *include the rollover value*. The total untaxed distributions appear in the ISIR in the FTI section (if the FA-DDX successfully matched the contributor’s FAFSA to their IRS record) or the manually entered data section (if the FA-DDX is not the source of the FAFSA data). The rollovers are reported separately from this value and are not derived directly from the tax return or transcript.

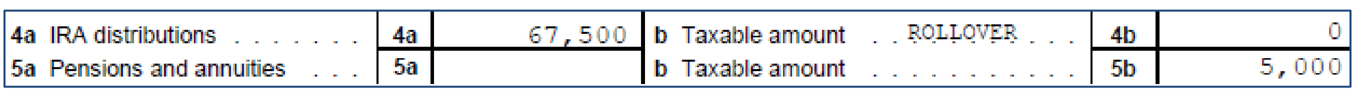
For both the Untaxed Portion of IRA Distributions and the Untaxed Portions of Pensions, there is a tax-form based value and a non-tax form-based value.

	Value Derived from Form 1040	Manually Entered Value
Untaxed IRA Distribution	Form 1040, line 4a – Form 1040, line 4b	Manually Entered Value of IRA Rollover
Untaxed Pension	Form 1040, line 5a – Form 1040, line 5b	Manually Entered Value of Pension Rollover

The ISIR will contain all four of these values, and the components that are included in the total income in the SAI formula are

- Untaxed Portions of IRA Distributions: Form 1040, line 4a – Form 1040, line 4b – the IRA Rollover
- Untaxed Portions of Pensions: Form 1040, line 5a – Form 1040, line 5b – the pension Rollover

If either of these values is negative a 0 is used instead of the negative number.



4a IRA distributions	4a	67,500	b Taxable amount . . ROLLOVER . . .	4b	0
5a Pensions and annuities . . .	5a		b Taxable amount	5b	5,000

In the above example, line 4a minus line 5a would be $67,500. Line 5a – line 5b is –$5,000, but since this is a negative number, the correct value to use is $0. After this calculation, the rollovers are subtracted, and any negative values are again treated as 0.

The word “ROLLOVER” in line 4 indicates that the taxpayer moved money from at least one IRA to another account with similar tax characteristics. We will find the value of the rollover in the manual data section of the contributor’s ISIR data, as the tax return does not (necessarily) show the actual value of the rollover. “ROLLOVER” can also appear on line 5 if the taxpayer conducted a pension rollover.

Since the word “ROLLOVER” does not appear on line 5, the tax return suggests that there was no pension rollover. and we would expect the pension rollover value to be 0. If it is not zero, you have conflicting information.

2024 IRS Tax Return
"Untaxed portions of IRA distributions" – *Form 1040 Line 4a minus Form 1040, line 4b*

Income	1a	Total amount from Form(s) W-2, box 1 (see instructions)				1a	76,601
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.	b	Household employee wages not reported on Form(s) W-2				1b	
	c	Tip income not reported on line 1a (see instructions)				1c	
	d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)				1d	
	e	Taxable dependent care benefits from Form 2441, line 26				1e	
	f	Employer-provided adoption benefits from Form 8839, line 29				1f	
If you did not get a Form W-2, see instructions.	g	Wages from Form 8919, line 6				1g	
	h	Other earned income (see instructions)				1h	0
	i	Nontaxable combat pay election (see instructions)	1i				
	z	Add lines 1a through 1h				1z	76,601
Attach Sch. B if required.	2a	Tax-exempt interest	2a	1,543	b Taxable interest	2b	7,499
	3a	Qualified dividends	3a	9,578	b Ordinary dividends	3b	13,507
	4a	IRA distributions	4a	1,621	b Taxable amount	4b	1,018
Standard Deduction for-	5a	Pensions and annuities	5a		b Taxable amount	5b	0

In this case, the untaxed portion of IRA distributions (including any rollovers) is $1,621 – $1,018, or $603. The FA-DDX will put this figure into the FAFSA if it matches the contributor to their IRS record, and there are no problems with the IRS data that would block the tax data transfer into the FAFSA.

2024 IRS Tax Return
"Untaxed portion of pensions" – *Form 1040, Line 5a minus Form 1040, line 5b*

Income	1a	Total amount from Form(s) W-2, box 1 (see instructions)				1a	76,601
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.	b	Household employee wages not reported on Form(s) W-2				1b	
	c	Tip income not reported on line 1a (see instructions)				1c	
	d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)				1d	
	e	Taxable dependent care benefits from Form 2441, line 26				1e	
	f	Employer-provided adoption benefits from Form 8839, line 29				1f	
If you did not get a Form W-2, see instructions.	g	Wages from Form 8919, line 6				1g	
	h	Other earned income (see instructions)				1h	0
	i	Nontaxable combat pay election (see instructions)	1i				
	z	Add lines 1a through 1h				1z	76,601
Attach Sch. B if required.	2a	Tax-exempt interest	2a	1,543	b Taxable interest	2b	7,499
	3a	Qualified dividends	3a	9,578	b Ordinary dividends	3b	13,507
	4a	IRA distributions	4a	1,621	b Taxable amount	4b	1,018
Standard Deduction for-	5a	Pensions and annuities	5a		b Taxable amount	5b	0

How are the Untaxed IRA Distribution and the Untaxed Pension values Used in the Determination of an Applicant's Title IV Aid Eligibility?

After rollovers are subtracted, they are added to the AGI as untaxed income and are part of the total income. No allowances are based on the untaxed IRA distributions or untaxed pensions, or the total income, so changes to these values will not result in a change in the allowances against income.

If the IRS Matched the Contributor's FAFSA to the Contributor's IRS Record, How Do We Know if They Had a Rollover in the Tax Year? What if We are Looking at a Tax Return Transcript?

The FA-DDX does not transfer the value of the rollover into the FAFSA, nor does it provide an indicator that the tax return included a rollover. The rollover value is always manually entered. Also, the "rollover" indicator that appears on the tax return does not appear on the tax return transcript.

The only way to know if the contributor had a rollover without looking at the tax return is to look in the ISIR to see if they reported a non-zero value in one of the rollover questions.

2024 IRS Tax Return Transcript
“Untaxed portions of IRA distributions”

Find the “Total IRA distributions” and “Taxable IRA distributions” in the “Income” section of the transcript. The correct value for the ISIR is “Total IRA distributions” minus “Taxable IRA distributions.” IRA rollovers, if any, are not reflected in the tax return transcript.

Income	
Total wages:	$76,601.00
Form W-2 wages:	$76,601.00
Taxable interest income (Schedule B):	$7,499.00
Tax-exempt interest:	$1,543.00
Ordinary dividend income (Schedule B):	$13,507.00
Qualified dividends:	$9,578.00
Refunds of state/local taxes:	$0.00
Alimony received:	$0.00
Business income or loss (Schedule C):	$0.00
Business income or loss (Schedule C) per computer:	$0.00
Capital gain or loss (Schedule D):	$13,586.00
Capital gains or loss (Schedule D) per computer:	$13,586.00
Other gains or losses (Form 4797):	$0.00
Total IRA distributions:	$1,621.00
Taxable IRA distributions:	$1,018.00
Total pensions and annuities:	$0.00
Taxable pension/annuity amount:	$0.00
Additional income:	$0.00

2024 IRS Tax Return Transcript:
“Untaxed portion of pensions”

Find the “Total pensions and annuities” and “Taxable pension/annuity amount” in the “Income” section of the transcript. The value for the ISIR is “Total pensions and annuities” minus “Taxable pensions/annuity amount.” Pension rollovers, if any, are not reflected in the tax return transcript.

Income	
Total wages:	$76,601.00
Form W-2 wages:	$76,601.00
Taxable interest income (Schedule B):	$7,499.00
Tax-exempt interest:	$1,543.00
Ordinary dividend income (Schedule B):	$13,507.00
Qualified dividends:	$9,578.00
Refunds of state/local taxes:	$0.00
Alimony received:	$0.00
Business income or loss (Schedule C):	$0.00
Business income or loss (Schedule C) per computer:	$0.00
Capital gain or loss (Schedule D):	$13,586.00
Capital gains or loss (Schedule D) per computer:	$13,586.00
Other gains or losses (Form 4797):	$0.00
Total IRA distributions:	$1,621.00
Taxable IRA distributions:	$1,018.00
Total pensions and annuities:	$0.00
Taxable pension/annuity amount:	$0.00
Additional income:	$0.00

Are We Required to Verify a Rollover if the Reported Value is $0?

No. You only need to verify non-zero rollover values and only if the student is selected for V1 or V5 verification.

How Do We Know if the FAFSA Contributor Conducted a Rollover on a Tax Return?

If the contributor's tax return was properly filed, you will see the word "rollover" on the same line as the distribution information on the tax return.

In the image below, the taxpayer conducted an IRA rollover (note the word "ROLLOVER" on line 4) but did not conduct a pension rollover (note the lack of the word "rollover" on line 5).

4a IRA distributions	4a	67,500	b Taxable amount . . ROLLOVER . . .	4b	0
5a Pensions and annuities . . .	5a		b Taxable amount	5b	5,000

Note that the word "rollover" can appear anywhere on Form 1040, line 4 or line 5. Its location has no functional meaning other than to tell you whether the rollover was an IRA rollover or pension rollover.

How Do We Know the Actual Value of the Rollover from the Tax Return?

Unfortunately, you cannot conclusively determine the value of a rollover from the tax return. In the example above, the most likely value for the rollover would be $67,500, or line 4a minus line 4b. However, it is possible that the total distribution on line 4a includes both a rollover and an actual distribution. The tax return would look like this if the taxpayer has done a $60,000 rollover and a $7,500 Roth IRA distribution – or any combination of the two that equaled $67,500.

If the applicant is not selected for V1 or V5 verification, then any rollover value they reported on the FAFSA that is equal to or smaller than the total amount of untaxed distributions on either line 4a or line 4b could be correct. You would not have conflicting information with any such value unless you had reason to doubt, from information you learned outside of the FAFSA or tax return, that the value was incorrect. Without information from outside the FAFSA data, such as a statement from the contributor that they answered the rollover question incorrectly, you would not need to question any such value.

If an Applicant is Selected for V1 or V5 Verification, What Documents Can We Use to Verify Rollovers?

ED has stated that you can collect one of two documents to verify a rollover in a selected application:

- A signed statement confirming the amount of the rollover;

  OR

- A signed copy of the tax return or tax return transcript that includes the word "rollover" beside the rollover value. Note that the annotation *must be signed and dated* by the tax filer.

Can We Accept Form 1099-R or Form 5498 as Verification Documents for Rollovers?

People have been asking this question since the dawn of verification, and to my knowledge, Federal Student Aid has never said that these tax forms are acceptable for verification.

Form 1099-R, *Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*, will show the total amount withdrawn from an IRA or pension plan in box 1. Information about the withdrawal can be found in Box 7, which contains codes that let the IRS what the account owner's intention was when taking money out of the account. If there is a code of 6, G, or H in box 7, this indicates that the amount in box 1 was intended to be a rollover. Note that this code means that the account owner told their custodian that they intended to roll the withdrawn funds into another retirement account, but it is possible that the rollover did not happen, was unsuccessful, or was not completed within sixty (60) days of the withdrawal (this would be called a “failed rollover”). Also, the taxpayer may not have told the custodian that they planned to roll the withdrawn funds into another account but may still have successfully rolled the funds into another account.

Form 5498, *IRA Contribution Information*, will show the value of funds actually “rolled over” into a recipient IRA account (Form 5498 is not issued if the funds were rolled over into an employer sponsored plan like a 401k or 403b). It is definitive. If there is a value in box 2 of Form 5498, then the funds are a completed rollover.

Again, neither Form 1099-R nor Form 5498 are included in the list of valid documents for verifying a rollover. A conservative approach to verification would be to rely on the documents mentioned above that are valid for verification and not collect these forms for verification purposes.

Can We Collect Both a Signed Statement Indicating that a Rollover Happened that Lists Its Value, *AND* Form 1099-R or Form 5498, Just to be Sure We Have the Right Rollover Amount?

Once you have received a document that is valid for verification, you must proceed to use it. You cannot delay processing the awarding or disbursing funds if you have the complete set of documents necessary to complete your review or perform verification, in the absence of suspected conflicting information or an intention to consider using professional judgment. Because the signed statement is acceptable for verification and Forms 1099-R and 5498 are not, waiting for these extra documents to move an application forward is not permitted. So, it would **not** be a good practice to ask for these forms as part of the verification process.

However, if you are concerned that your verification document contains incorrect information and you decide that Form 1099-R and/or Form 5498 is/are needed to resolve the conflicting information, you can collect them. Just make sure you document, in the applicant’s record, why you have paused processing or held up a disbursement before requesting the form(s).

If you need to resolve conflicting information about a rollover into an employer sponsored 401k, 403b, or 457 plan, you can ask for the monthly statement for the month that the rollover funds were deposited in the plan. There should be a clearly marked transaction in the statement that shows both that the plan received a rollover and how much was deposited into the account as a rollover.

What Should We Do if a Contributor Reported a Non-zero Value for a Rollover in the FAFSA, but Their Tax Return Does Not Include the Word “Rollover” on Form 1040, Line 4 or Line 5?

You have identified conflicting information that you need to resolve. In this case, either the tax return was filed incorrectly, or the value of the rollover should be zero.

Since you, as a financial aid administrator, can determine which documentation you need to collect to resolve the conflicting information, this might be an opportunity to ask for Form 1099-R and/or Form 5498. This is not a verification situation and these forms, preferably Form 5498 for IRA rollovers, will allow you to determine the correct value for the rollover without ambiguity.

Note: if you received documentation that allows you to conclude that the manually reported value is correct, and that the missing “rollover” on the tax return is incorrect, you do not need to ask the contributor to amend their tax return to add the word “rollover” to Form 1040. In this case, collecting a Form 1040-X, *Amended U.S. Individual Income Tax Return*, would not change the student’s eligibility for Title IV aid, so it is not necessary to collect a corrected tax return.

What Changes Can We Expect Related to Untaxed IRA and Pension Distributions in 2027-2028?

The 2025 tax return includes a check box for taxpayers to use if their untaxed IRA or pension distribution includes a rollover. The rollover questions on the 2027-2028 FAFSA have been updated to address this change.

Education Credits

Education credits (American Opportunity and Lifetime Learning credits) $ ___,___,___ *IRS Form 1040 Schedule 3: line 3 + IRS Form 1040: line 29*

2024 IRS Tax Return

Form 1040, line 29 plus Schedule 3, line 3

Form 1040, line 29 is listed as the "American opportunity credit from Form 8863, line 8"

Form 1040, Page 1

Payments					
25	Federal income tax withheld from:				
a	Form(s) W-2	25a	13,324		
b	Form(s) 1099	25b	224		
c	Other forms (see instructions)	25c	0		
d	Add lines 25a through 25c			25d	13,548
26	2024 estimated tax payments and amount applied from 2023 return			26	0
27	Earned income credit (EIC)	27			
28	Additional child tax credit from Schedule 8812	28			
29	American opportunity credit from Form 8863, line 8	29			

If you have a qualifying child, attach Sch. EIC.

SCHEDULE 3 (Form 1040)
Department of the Treasury
Internal Revenue Service

Additional Credits and Payments

Attach to Form 1040, 1040-SR, or 1040-NR.
Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074
2024
Attachment Sequence No. **03**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR | **Your social security number**

Part I	**Nonrefundable Credits**		
1	Foreign tax credit. Attach Form 1116 if required	1	395
2	Credit for child and dependent care expenses from Form 2441, line 11. Attach Form 2441	2	0
3	Education credits from Form 8863, line 19	3	0

2024 IRS Tax Return Transcript

"Refundable education credit per computer" plus "Education credit per computer"

Locating the relevant lines for the education credits on the tax return transcript can be a little tricky, so we are providing more detail for this FAFSA tax item than we do for other FAFSA tax items.

Form 1040, line 29*:* Find the "Refundable education credit per computer" in the "Payments" section of the ISIR. There are two instances of this term in the tax return transcript, and the instance in the "Payments" section of the transcript is the better one to use.

Payments

Federal income tax withheld:	$13,548.00
Prior year advanced credit:	$0.00
Estimated tax payments:	$0.00
Other payment credit:	$0.00
Refundable education credit:	$0.00
Refundable education credit per computer:	$0.00
Refundable education credit verified:	$0.00
Refundable credits:	$0.00
Earned income credit:	$0.00
Earned income credit per computer:	$0.00
Nontaxable combat pay:	$0.00

Schedule 3, line 3: Find the "Education credit per computer" in the "Tax and Credits" section of the tax return transcript.

Tax and Credits

65 or over:	No
Blind:	No
Spouse 65 or over:	No
Spouse blind:	No
Standard deduction per computer:	$14,600.00
Additional standard deduction per computer:	$0.00
Tax table income per computer:	$97,611.00
Exemption amount per computer:	$0.00
Taxable income:	$97,516.00
Taxable income per computer:	$97,516.00
Total positive income per computer:	$112,211.00
Tentative tax:	$14,885.00
Tentative tax per computer:	$14,885.00
Form 8814 additional tax amount:	$0.00
Tax on income less Social Security income per computer:	$0.00
Form 6251 alternative minimum tax:	$0.00
Form 6251 alternative minimum tax per computer:	$0.00
Foreign tax credit:	$395.00
Foreign tax credit per computer:	$395.00
Foreign income exclusion per computer:	$0.00
Foreign income exclusion tax per computer:	$0.00
Excess advance premium tax credit repayment amount:	$0.00
Excess advance premium tax credit repayment verified amount:	$0.00
Child & dependent care credit:	$0.00
Child & dependent care credit per computer:	$0.00
Credit for elderly and disabled:	$0.00
Credit for elderly and disabled per computer:	$0.00
Education credit:	$0.00
Education credit per computer:	$0.00
Gross education credit per computer:	$0.00
Retirement savings contribution credit:	$0.00
Retirement savings contribution credit per computer:	$0.00

How are the Education Credits Used in the Determination of an Applicant's Title IV Aid Eligibility?

The Education Credits are subtracted from the Total Income as an Income Offset, reducing the income assessed in the formula.

Foreign Earned Income Exclusion

2024 IRS Tax Return
Schedule 1, line 8d

Foreign earned income exclusion
$, ,
IRS Form 1040 Schedule 1: line 8d

SCHEDULE 1 (Form 1040)
Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income
Attach to Form 1040, 1040-SR, or 1040-NR.
Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074
2024
Attachment Sequence No. **01**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR | **Your social security number**

For 2024, enter the amount reported to you on Form(s) 1099-K that was included in error or for personal items sold at a loss 0
Note: The remaining amounts reported to you on Form(s) 1099-K should be reported elsewhere on your return depending on the nature of the transaction. See *www.irs.gov/1099k*.

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes			1	0
2a	Alimony received			2a	
b	Date of original divorce or separation agreement (see instructions):				
3	Business income or (loss). Attach Schedule C			3	0
4	Other gains or (losses). Attach Form 4797			4	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E			5	
6	Farm income or (loss). Attach Schedule F			6	0
7	Unemployment compensation			7	
8	Other income:				
a	Net operating loss	8a	(0)		
b	Gambling	8b	0		
c	Cancellation of debt	8c			
d	Foreign earned income exclusion from Form 2555	8d	(0)		
e	Income from Form 8853	8e	0		
f	Income from Form 8889	8f	0		
g	Alaska Permanent Fund dividends	8g			

What is the Foreign Earned Income Exclusion (FEIE)?

The United States requires tax filers to report their worldwide income on their income tax returns. Most countries require anyone working within their borders to report the income earned in the country on their national income tax returns. This means that a United States citizen or permanent resident who earns income outside of the United States may be subject to income taxation by two countries. The FEIE is one of the ways the United States tax code reduces the impact of this double taxation.

Taxpayers who earn income outside of the United States, and who were taxed on that income, can deduct up to $126,500 (2024 tax year) of their foreign earned income on their Form 1040, Schedule 1, to reduce their AGI and eliminate that income from double taxation. The FEIE is per person, so a married couple who each had excludable foreign income may be able to deduct up to $126,500 each. If the employer provides housing and the value of that housing is treated as taxable income, there is also a supplemental exclusion for housing costs. Self-employed people may claim a supplemental foreign housing deduction.

A separate tax break, the Foreign Tax Credit, is used to offset double taxation of unearned income and/or earned income in excess of the FEIE income limit. This is not relevant to federal aid processing.

2024 IRS Tax Return Transcript

Look for "Foreign income exclusion per computer" in the middle of the "Tax and Credits" section of the tax return transcript. This is close to and above the "Education credit per computer" line in the transcript, referenced earlier.

Be careful here. The line immediately following "Foreign income exclusion per computer" looks like the correct line but includes the word "tax" – this is not the correct value to use.

Tax and Credits

65 or over:	No
Blind:	No
Spouse 65 or over:	No
Spouse blind:	No
Standard deduction per computer:	$14,600.00
Additional standard deduction per computer:	$0.00
Tax table income per computer:	$97,611.00
Exemption amount per computer:	$0.00
Taxable income:	$97,516.00
Taxable income per computer:	$97,516.00
Total positive income per computer:	$112,211.00
Tentative tax:	$14,885.00
Tentative tax per computer:	$14,885.00
Form 8814 additional tax amount:	$0.00
Tax on income less Social Security income per computer:	$0.00
Form 6251 alternative minimum tax:	$0.00
Form 6251 alternative minimum tax per computer:	$0.00
Foreign tax credit:	$395.00
Foreign tax credit per computer:	$395.00
Foreign income exclusion per computer:	$0.00
Foreign income exclusion tax per computer:	$0.00
Excess advance premium tax credit repayment amount:	$0.00
Excess advance premium tax credit repayment verified amount:	$0.00
Child & dependent care credit:	$0.00
Child & dependent care credit per computer:	$0.00
Credit for elderly and disabled:	$0.00
Credit for elderly and disabled per computer:	$0.00
Education credit:	$0.00
Education credit per computer: **Point of Reference**	$0.00
Gross education credit per computer:	$0.00
Retirement savings contribution credit:	$0.00
Retirement savings contribution credit per computer:	$0.00

Note – even though this is a deduction, it appears (for some reason) in the credit section of the transcript.

The FAFSA Allows Contributors to Report the FEIE as Either a Positive or Negative Number. Which is Correct?

The FEIE is a positive number that is ultimately subtracted from the income during the calculation that leads to the **additional income** on Schedule 1, line 10 and Form 1040, line 8. The FAFSA processing system will treat it as a positive amount of untaxed income, whether or not the contributor reports the FEIE as a positive of negative value.

This is linguistically similar to a loss. When someone is asked “how much did you lose in the stock market yesterday,” they state their loss as a positive number.

Is There a Way to Tell if a Large FEIE is Reported Whether It is Correct or Not Based on Information in the FAFSA without Asking for the Tax Return?

While you cannot determine if the manually reported FEIE value is exactly correct without collecting Schedule 1, you can identify answers where the value is ***almost certainly incorrect*** using only FAFSA data. You can use these suggestions to develop filters that allow you to decide which FEIE values are ***suspicious enough*** to consider conflicting information, and which are ***reasonable enough*** to ignore.

Consideration 1 – Does the FEIE Make Sense When Compared to the Difference Between the AGI and the Earned Income?

The FEIE reduces the AGI by an amount equal to, or less than, the taxpayer’s earned income. So, if the sum or the FEIE and the income earned from work is much larger than the AGI, the FEIE is likely incorrect.

For example, if the AGI is $100,000, the income earned from work is $99,575, and the FEIE is $99,575, the data do not make sense. If the FEIE were $99,575, then the AGI would be $100,000 – $99,575, or $425. In this case, collecting a signed copy of Schedule 1, or asking the contributor to correct their FAFSA, would be a good practice.

On the flip side, if the AGI is $425, the income earned from work is $99,575, and the FEIE is $99,575, then the data do make sense. We’d expect a very small AGI in a case where most of a taxpayer’s income was earned in another country.

Don’t look for the math to be exact as it is in the two example above. Tax returns that contain losses or partnership income may have AGIs that are not exactly the difference between the AGI and the income earned from work but are still *reasonable enough* not to question. Use this process to identify egregious situations where the FEIE is most likely incorrect, not situations where the math is not precise.

Consideration 2 – What is the Contributor’s State of Residence?

Almost everyone who is eligible to claim the FEIE lived outside of the United States (including those who live outside the territories) during the tax year. So, if someone reports a large FEIE and at the same time says they live in a United States state or territory on the FAFSA, it is possible that the FEIE is incorrect.

This consideration is less reliable than the first one, though. It is possible that someone did live outside the United States in 2024 but moved back to the United States before filing the FAFSA. This is a reasonable explanation of why a contributor might answer, correctly, that they claimed a FEIE in 2024 and that they live in the United States (including the territories) as of the day they submitted their portion of the FAFSA.

Also, it is possible that people live outside of the United States but use a US based mailing address as their Form 1040 address. There is no requirement that a taxpayer use their residential address on

Form 1040. They may use any valid address they want to (but if they use the address of another person, that person must agree to receive their mail and forward IRS communications to them). Of course, they may not use an address to misrepresent where there home is or create a path for claiming they did not receive IRS communications (blaming the address holder for not getting IRS mail won't help in an audit.)

Note that this address flexibility does not apply to addresses requested on other Forms or Schedules where the taxable income, tax credits, or tax deductions depends on knowing the address of a building or resident. This means that contributors must report specific addresses on Schedule E, where rental income is calculated, and Form 2555, *Foreign Earned Income)*, where the FEIE is calculated, among others. The FEIE requires the fully disclosed postal address of the taxpayer's foreign residence.

How is This Question Used in the Determination of an Applicant's Title IV Aid Eligibility?

The FEIE has two roles in the determination of an applicant's Title IV Aid Eligibility:

- First, it is treated as untaxed income that is added to the AGI as part of the Total Income calculation.
- Second, it is added to the AGI, and the sum is compared to multiples of the poverty guideline for the dependent student's parent(s) or independent student (and spouse if there is one) to determine if the applicant is eligible for Maximum or Minimum Pell Grant.

IRA Deductions and Payments to Self-employed SEP, SIMPLE, and Qualified Plans

IRA deductions and payments to self-employed SEP, SIMPLE, and qualified plans
$ __,___,___,___
IRS Form 1040 Schedule 1: total of lines 16 + 20

2024 IRS Tax Return:
Schedule 1, line 16 plus Schedule 1, line 20

Schedule 1 (Form 1040) 2024 — Page 2

Part II Adjustments to Income

11	Educator expenses	11	0
12	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	12	0
13	Health savings account deduction. Attach Form 8889	13	
14	Moving expenses for members of the Armed Forces. Attach Form 3903	14	0
15	Deductible part of self-employment tax. Attach Schedule SE	15	0
16	Self-employed SEP, SIMPLE, and qualified plans	16	0
17	Self-employed health insurance deduction	17	0
18	Penalty on early withdrawal of savings	18	0
19a	Alimony paid	19a	
b	Recipient's SSN		
c	Date of original divorce or separation agreement (see instructions):		
20	IRA deduction	20	0
21	Student loan interest deduction	21	

2024 IRS Tax Return Transcript

Look for the "Adjustments to Income" section of the transcript. The relevant transcript lines are "Keogh/SEP contribution deduction" and "IRA deduction per computer," which are added together to get the correct answer to this FAFSA question.

Adjustments to Income

Educator expenses:	$0.00
Educator expenses per computer:	$0.00
Reservist and other business expense:	$0.00
Health Savings Account deduction:	$0.00
Health Savings Account deduction per computer:	$0.00
Moving expenses (Form 3903):	$0.00
Self-employment tax deduction:	$0.00
Self-employment tax deduction per computer:	$0.00
Self-employment tax deduction verified:	$0.00
Keogh/SEP contribution deduction:	$0.00
Self-employment health insurance deduction:	$0.00
Early withdrawal of savings penalty:	$0.00
Alimony paid SSN:	
Alimony paid:	$0.00
Repayment clean vehicle credit:	$0.00
IRA deduction:	$0.00
IRA deduction per computer:	$0.00
Student loan interest deduction:	$0.00
Student loan interest deduction per computer:	$0.00

How is This Question Used in the Determination of an Applicant's Title IV Aid Eligibility?

This is untaxed income that is added to the AGI as part of the Total Income calculation.

Tax Exempt Interest Income

2024 IRS Tax Return

Form 1040, line 2a

Tax exempt interest income

$ [ ][ ],[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]

IRS Form 1040: line 2a

Income	1a	Total amount from Form(s) W-2, box 1 (see instructions)				1a	76,601
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.	b	Household employee wages not reported on Form(s) W-2				1b	
	c	Tip income not reported on line 1a (see instructions)				1c	
	d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)				1d	
	e	Taxable dependent care benefits from Form 2441, line 26				1e	
	f	Employer-provided adoption benefits from Form 8839, line 29				1f	
If you did not get a Form W-2, see instructions.	g	Wages from Form 8919, line 6				1g	
	h	Other earned income (see instructions)				1h	0
	i	Nontaxable combat pay election (see instructions)	1i				
	z	Add lines 1a through 1h				1z	76,601
Attach Sch. B if required.	2a	Tax-exempt interest	2a	1,543	b Taxable interest	2b	7,499
	3a	Qualified dividends	3a	9,578	b Ordinary dividends	3b	13,507
Standard Deduction for-	4a	IRA distributions	4a	1,621	b Taxable amount	4b	1,018
	5a	Pensions and annuities	5a		b Taxable amount	5b	0

2024 IRS Tax Return Transcript

This FAFSA data element appears near the top of the "Income" section of the tax return transcript.

Income	
Total wages:	$76,601.00
Form W-2 wages:	$76,601.00
Taxable interest income (Schedule B):	$7,499.00
Tax-exempt interest:	$1,543.00
Ordinary dividend income (Schedule B):	$13,507.00
Qualified dividends:	$9,578.00
Refunds of state/local taxes:	$0.00
Alimony received:	$0.00
Business income or loss (Schedule C):	$0.00
Business income or loss (Schedule C) per computer:	$0.00

How is This Question Used in the Determination of an Applicant's Title IV Aid Eligibility?

Tax exempt interest income is untaxed income that is added to the AGI as part of the Total Income calculation.

FAFSA Tax Data – Items Not Subject to Verification

The FAFSA collects some tax data that is not subject to verification even if the student is selected for V1 or V5 verification. This FAFSA data should be reviewed if the applicant or a contributor provides a tax return or tax return transcript to the institution. Since these questions are used in the calculation of the Student Aid Index, incorrectly answered questions can generate incorrect eligibilities for Title IV aid. Institutions are not required to collect documentation to make sure these answers are correct in the absence of a reason to doubt their accuracy but must check the answers against any documentation they receive that contains the correct answers.

Earned Income Credit (EIC)

2024 IRS Tax Return
Form 1040, line 27

Did the parent receive the earned income credit (EIC)?
IRS Form 1040: line 27
◯ Yes ◯ No ◯ Don't know

Payments	25	Federal income tax withheld from:			
	a	Form(s) W-2	25a 13,324		
	b	Form(s) 1099	25b 224		
	c	Other forms (see instructions)	25c 0		
	d	Add lines 25a through 25c		25d	13,548
If you have a qualifying child, attach Sch. EIC.	26	2024 estimated tax payments and amount applied from 2023 return		26	0
	27	Earned income credit (EIC)	27		
	28	Additional child tax credit from Schedule 8812	28		
	29	American opportunity credit from Form 8863, line 8	29		
	30	Reserved for future use	30		
	31	Amount from Schedule 3, line 15	31 0		
	32	Add lines 27, 28, 29, and 31. These are your **total other payments and refundable credits**		32	0
	33	Add lines 25d, 26, and 32. These are your **total payments**		33	13,548

2024 IRS Tax Return Transcript

The Earned Income Credit appears at the top of the Payments section of the transcript. Use the per computer value for all if it differs from the prior value.

Be careful here: there are three lines in the Income section of the transcript that reference the "EIC." These values are not the earned income credit, but are income values related to EIC eligibility.

Payments

Federal income tax withheld:	$13,548.00
Prior year advanced credit:	$0.00
Estimated tax payments:	$0.00
Other payment credit:	$0.00
Refundable education credit:	$0.00
Refundable education credit per computer:	$0.00
Refundable education credit verified:	$0.00
Refundable credits:	$0.00
Earned income credit:	$0.00
Earned income credit per computer:	$0.00

How is This Question Used in the Determination of an Applicant's Title IV Aid Eligibility?

The Earned Income Credit is used to determine if the primary contributor should be considered a "single parent" when determining the applicant's eligibility for Maximum and Minimum Pell Grant.

For a dependent student's parent who is unmarried, a "Yes" answer to this question will set their Single Parent Status Indicator to "True", even if their filing status is not Head of Household (HoH) or Qualifying Surviving Spouse (QSS) (these filing statuses cannot be used unless the taxpayer has a dependent).

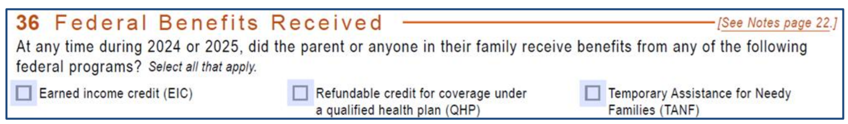
For an independent student who is unmarried and whose Has Dependents Indicator is "True," a "Yes" answer to this question will set their Single Parent Status Indicator to "True," even if their filing status is not HoH or QSS.

Since the poverty guideline multipliers are larger for single parents when compared to non-parents and non-single parents, a "Yes" answer here increases the chance that an applicant is eligible for Maximum or Minimum Pell Grant.

For processing purposes, blanks and "Don't know" answers are treated as "No" answers. If the dependent student's parent or independent student is unmarried and did not use the HoH or QSS filing status, correcting this to "Yes" may trigger eligibility for Maximum or Minimum Pell Grant.

Earned Income Credit (EIC) as a Federal Benefits

2024 *Form 1040, line 27* or
2025 *Form 1040, line 27a*


36 Federal Benefits Received [See Notes page 22.]
At any time during 2024 or 2025, did the parent or anyone in their family receive benefits from any of the following federal programs? *Select all that apply.*
☐ Earned income credit (EIC)
☐ Refundable credit for coverage under a qualified health plan (QHP)
☐ Temporary Assistance for Needy Families (TANF)

What Qualified an Applicant and Contributors to Complete the FAFSA without Reporting Assets?

The Student Aid Index formula includes an exemption from asset reporting when the primary contributors meet **any** of three criteria:

- They are eligible for Maximum Pell Grant because the sum of their AGI plus FEIE is less than or equal to the relevant multiplier of their poverty level income (from the base year poverty guidelines tables);

  OR

- Their AGI is less than $60,000, they did not file Schedules A, B, D, E, F, or H, and if they filed a Schedule C, the net value of their Schedule C income is between –$10,000 and $10,000, inclusive;

  OR

- **Someone in their family received a Federal Benefit** in the base year or the year after the base year. If no one in the family received these benefits in these two years but does receive them before the end of the academic year, the FAA can use professional judgment, on a case-by-case basis, to treat the applicant as though the family member had the benefits in 2024 or 2025.

How Can I Use the 2024 Income Tax Return to Check this Answer?

Since this question is based on tax data from 2024 and 2025, and people who may not be contributors to the FAFSA, it is possible that the applicant is exempt from asset reporting based on the EIC even if there is no value on 2024's Form 1040, line 27. The EIC could appear on the 2025 tax return or may have been received by a family member who is not a contributor to the FAFSA. You do not need to prove with certainty that someone received an EIC – so you do not need to ask for 2025 tax returns or tax returns from non-contributors (in fact, you should never ask for tax returns from non-contributors, as non-contributors are not required to provide any information to you) if the contributor answered that they received an EIC, but this is not reflected on their 2024 tax return.

However, if you suspect for some reason that it is unlikely that the applicant or any family member would receive an EIC in 2025, you can request confirmatory information from the applicant and their contributors.

That Sounds Complicated. Can You Give a Couple of Examples Involving the EIC?

Example 1: A parent contributor to a dependent student's FAFSA checked the box stating that they or someone in their household received an Earned Income Credit in 2024 or 2025. The student was a non-filer in 2024, but their parents filed a tax return in 2024. You collected the parents' 2024 tax return because the CUI//SP-TAX IRS Response Code was 203 – PII Match Failed CUI//SP-TAX. Their tax return does not have a value on Form 1040, line 27 (Earned Income Credit).

You do not need to consider this conflicting information that needs to be resolved. It is possible that the parents received an Earned Income Credit in 2025, or that another member of the family received one.

Example 2: Take the facts of Example 1, and add two more: the family size is 3, and the student submitted a professional judgment request due to their parents having lower income in 2025 than 2024. The parents' 2025 tax return was available when the request came in, and your school's policy is to review the most recent tax return as part of your consideration of professional judgment request. You check Form 1040, line 27a to see if the parents had an Earned Income Credit in 2025, and they did not.

You have identified conflicting information that must be resolved. By bringing the 2025 tax return into the student's record, you have another piece of information that can be used to check the accuracy of the answers to the 2024 FAFSA. In this case, the parents did not have an Earned Income Credit in 2024 or 2025. The student did not file a tax return in either year. No one in the family received an Earned Income Credit in 2024 or 2025, and the correct answer to the question would be no.

If the only reason the student was exempt from asset reporting was because of this answer, you cannot calculate an accurate SAI because you do not have assets values, and assets are required in this case.

If I Determine that a Federal Benefit was Answered "Yes" but Should Have been Answered "No," Should I Correct It or Should I ask the FAFSA Contributor to Correct It?

You only need to correct an incorrect Federal Benefits Question from "Yes" to "No" if the "Yes" is the only reason that the applicant is exempt from asset reporting. If the applicant is eligible for Maximum Pell Grant based on the poverty guidelines, meets the simple-tax-return-low-income criteria for the exemption, or has another federal benefit, the student is exempt from asset reporting anyway, and changing the incorrect answer would not change their SAI. You do not need to submit a correction in this situation.

If you determine that an incorrect answer to a federal benefits question is the only reason the applicant is exempt from asset reporting, then it does need to be corrected. If you submit the correction, the resultant ISIR will be rejected because *it won't have any assets reported*.

So, a better option would be to ask the applicant or the contributor to make the correction. When they change the answer to the federal benefit question, the online FAFSA will ask them for assets. Note that both the dependent student and their parents will need to go back into their portions of the FAFSA to provide assets after the parent corrects their answer to the question.

As an alternative, you could ask the student and their contributors to send you a signed statement with the answers to the FAFSA asset questions. If you do this, you can do the corrections yourself, without having an intermediate ISIR that is rejected for lack of asset information.

What Else Should I Know About the Federal Means-Tested Benefits Questions?

The wording of this question is inconsistent with the intent of the FAFSA Simplification Act. The Act specifies that an applicant is exempt from asset reporting if they are

> *an applicant who, at any time during the previous 24-month period, received a benefit under a means-tested Federal benefit program (or whose parent or spouse received such a benefit, as applicable).*

The intent of the law was not to look beyond the FAFSA contributors when asking about federal benefits.

The pdf version of the 2026-2027 *Application and Verification Guide*, published on September 2, 2026, does capture the intent of the law. It states

> *A **dependent student** is exempt from asset reporting if they meet one of the following criteria….*
>
> > *The applicant or applicant's parent received a benefit under a means-tested Federal benefit program during the 2024 or 2025 calendar year.*
>
> *An **independent student** is exempt from asset reporting if they meet one of the following criteria….*
>
> > *The applicant or applicant's spouse received a benefit under a means-tested federal benefit program during the 2024 or 2025 calendar year.*

Refundable Credit for Coverage Under a Qualified Health Plan (QHP)

2024 and **2025 Tax Return**
*Schedule 2, line 1a***,**
Schedule 3, line 9, and
Form 8962, line 24

36 Federal Benefits Received *[See Notes page 22.]*
At any time during 2024 or 2025, did the parent or anyone in their family receive benefits from any of the following federal programs? *Select all that apply.*
☐ Earned income credit (EIC) ☐ Refundable credit for coverage under a qualified health plan (QHP) ☐ Temporary Assistance for Needy Families (TANF)

See the information at the top of the section on the Earned Income Credit for information on how this question is used in the determination of the exemption from asset reporting.

Taxpayers who receive their health insurance through the Affordable Care Act exchanges can estimate their annual income during the application process and can be awarded a subsidy that reduces their monthly premium payment during the year. This subsidy is called an “advance premium tax credit.” When these taxpayers file their tax return for the year, they recalculate their eligibility for the premium subsidy based on their actual income for the year, and calculate their actual “Premium Tax Credit.”

If they underestimated their income on their application, they may have received too large a subsidy. Schedule 2, line 1a, the *Excess Advance Premium Tax Credit Repayment (EAPTCR)* is assessed as an additional tax so that the taxpayer pays back their excess subsidy[2].

If they overestimated their income on their application, they may have received too small a subsidy. Schedule 3, line 9, the *Net Premium Tax Credit*, reduces their tax due or increases their refund by the amount of extra subsidy they are entitled to.

The actual amount of subsidy they were entitled to for the tax year appears on Form 8962, line 24, *Total PTC*. Form 8962 compares this correct subsidy (based on 2024 income) to the advance subsidy awarded (based on estimated income) to calculate the Excess Advance Premium Tax Credit they must repay or the Net Premium Tax Credit they are entitled to.

Technically, the FAFSA question refers only to the refundable credit that appears on Schedule 3, line 9. But anyone receiving a subsidy (a non-zero value on Form 8962, line 24) should be able to check this box if they received the subsidy in the base year or the year following. This is not reflected in the question on the 2026-2027 FAFSA but is corrected on the 2027-2028 draft FAFSA.

How Do I Use the Tax Return to Check the QHP Refundable Credit?

If the taxpayer received a Net Premium Tax Credit (Schedule 3, line 9), then they received a premium subsidy and should check the appropriate box in the means-tested benefits questions on the FAFSA.

Part II	Other Payments and Refundable Credits				
9	Net premium tax credit. Attach Form 8962			9	0
10	Amount paid with request for extension to file (see instructions)			10	
11	Excess social security and tier 1 RRTA tax withheld			11	0
12	Credit for federal tax on fuels. Attach Form 4136			12	
13	Other payments or refundable credits:				
a	Form 2439	13a	0		
b	Section 1341 credit for repayment of amounts included in income from earlier years	13b			
c	Net elective payment election amount from Form 3800, Part III, line 6, column (j)	13c			
d	Deferred amount of net 965 tax liability (see instructions)	13d			
z	Other refundable credits (see instructions):	13z	0		
14	Total other payments or refundable credits. Add lines 13a through 13z			14	0
15	Add lines 9 through 12 and 14. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 31			15	0

For Paperwork Reduction Act Notice, see your tax return instructions. Schedule 3 (Form 1040) 2024

Schedule 3, bottom of page

[2] This is our old friend Schedule 2, line 2, which was subtracted from Form 1040, line 22 to calculate the income tax paid answer prior to FAFSA Simplification. The numbering changed on the 2024 Form 1040.

If the taxpayer has a non-zero value for the Total PTC on Form 8962, line 24, then they did not receive a premium subsidy and should not check the PTC box on the FAFSA, unless they received it in 2025 or if a family member received it.

Part II Premium Tax Credit Claim and Reconciliation of Advance Payment of Premium Tax Credit

9 Are you allocating policy amounts with another taxpayer or do you want to use the alternative calculation for year of marriage? See instructions.

☐ **Yes.** Skip to Part IV, Allocation of Policy Amounts, or Part V, Alternative Calculation for Year of Marriage. ☒ **No.** Continue to line 10.

10 See the instructions to determine if you can use line 11 or must complete lines 12 through 23.

☒ **Yes.** Continue to line 11. Compute your annual PTC. Then skip lines 12–23 and continue to line 24. ☐ **No.** Continue to lines 12–23. Compute your monthly PTC and continue to line 24.

Annual Calculation	(a) Annual enrollment premiums (Form(s) 1095-A, line 33A)	(b) Annual applicable SLCSP premium (Form(s) 1095-A, line 33B)	(c) Annual contribution amount (line 8a)	(d) Annual maximum premium assistance (subtract (c) from (b); if zero or less, enter -0-)	(e) Annual PTC allowed (smaller of (a) or (d))	(f) Annual advance payment of PTC (Form(s) 1095-A, line 33C)
11 Annual Totals	10,306	7,939	9,669	0	0	0
Monthly Calculation	(a) Monthly enrollment premiums (Form(s) 1095-A, lines 21-32, column A)	(b) Monthly applicable SLCSP premium (Form(s) 1095-A, lines 21-32, column B)	(c) Monthly contribution amount (amount from line 8b or alternative marriage monthly calculation)	(d) Monthly maximum premium assistance (subtract (c) from (b); if zero or less, enter -0-)	(e) Monthly PTC allowed (smaller of (a) or (d))	(f) Monthly advance payment of PTC (Form(s) 1095-A, lines 21-32, column C)
12 January						
13 February						
14 March						
15 April						
16 May						
17 June						
18 July						
19 August						
20 September						
21 October						
22 November						
23 December						

Form 8862 bottom of page

24	Total PTC. Enter the amount from line 11(e) or add lines 12(e) through 23(e) and enter the total here	24	0
25	Advance payment of PTC. Enter the amount from line 11(f) or add lines 12(f) through 23(f) and enter the total here	25	0
26	Net PTC. If line 24 is greater than line 25, subtract line 25 from line 24. Enter the difference here and on Schedule 3 (Form 1040), line 9. If line 24 equals line 25, enter -0-. Stop here. If line 25 is greater than line 24, leave this line blank and continue to line 27	26	0

Part III Repayment of Excess Advance Payment of the Premium Tax Credit

27	Excess advance payment of PTC. If line 25 is greater than line 24, subtract line 24 from line 25. Enter the difference here	27	
28	Repayment limitation (see instructions)	28	
29	Excess advance PTC repayment. Enter the smaller of line 27 or line 28 here and on Schedule 2 (Form 1040), line 1a	29	

For Paperwork Reduction Act Notice, see your tax return instructions. Form **8962** (2024)

If the taxpayer has an EAPCTR on Schedule 2, line 1a, then it is possible, but not certain, that they received a premium subsidy. It is possible that they were not entitled to any subsidy, and Schedule 2, line 1a is a complete repayment of the Advance Premium Tax Credit they received. Rather than rely on Schedule 2, line 1a, check Form 8962, line 24 instead.

SCHEDULE 2 (Form 1040)

Department of the Treasury Internal Revenue Service

Additional Taxes

Attach to Form 1040, 1040-SR, or 1040-NR.

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

OMB No. 1545-0074

2024

Attachment Sequence No. **02**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR | **Your social security number**

Part I Tax

1	Additions to tax:		
a	Excess advance premium tax credit repayment. Attach Form 8962	1a	

Did the Contributor File a Lettered Schedule with Their Tax Return?

2024 IRS Tax Return
See below

Did the parent file a Schedule A, B, D, E, F, or H with their 2024 IRS Form 1040?	◯ Yes ◯ No ◯ Don't know

NOTE: each of these schedules has its own section in the tax return transcript. If you have the tax return transcript, you can check to see if any of these schedules were filed by looking for the transcript version of the schedule. So, for the following questions, we will not be including transcript views unless there is a Schedule specific reason to do so.

As mentioned in the Earned Income Credit section, an applicant can be exempt from reporting assets on their FAFSA if the primary contributor's AGI is less than $60,000, did not file Schedules A, B, D, E, F, or H, and if they filed a Schedule C, the net value of their Schedule C income is between –$10,000 and $10,000, inclusive. This question is part of this determination.

Although the pdf FAFSA asks applicants one question that covers all six Schedules, the FA-DDX will bring in separate answers for each schedule.

How Do I Know if a Taxpayer Filed One of These Lettered Schedules with Their Tax Return?

Remember, this is just one component of the asset exemption test. If the applicant is exempt from asset reporting because they or their parent received a federal benefit, or is eligible for Maximum Pell Grant based on the poverty guidelines, then there is no reason to check the answers to the lettered schedules question. This question stops mattering if the applicant is exempt from asset reporting based on these other factors.

Also, if the applicant's or applicant's parent(s)' AGI is $60,000 or greater, then, as above, the answer to this question is irrelevant. Filing or not filing a lettered schedule only matters if the relevant AGI is less than $60,000. Once this part of this three part test fails, the applicant is not eligible for the asset exemption, and the other two parts of the test become irrelevant.

How Do I Know if a Taxpayer Filed a Schedule A?

Schedule A is used to calculate the taxpayer's itemized deductions. Most people will file a tax return if their itemized deductions exceed their standard deduction for the year. The deduction is reported on Form 1040, line 12. If Form 1040, line 12 is the standard deduction for the taxpayer's filing status, age, and blindness, then the taxpayer did not file a Schedule A.

Standard Deduction for-	**4a** IRA distributions	**4a**	1,621	**b** Taxable amount	**4b**	1,018
• Single or Married filing separately, $14,600	**5a** Pensions and annuities	**5a**		**b** Taxable amount	**5b**	0
• Married filing jointly or Qualifying surviving spouse, $29,200	**6a** Social security benefits	**6a**		**b** Taxable amount	**6b**	
• Head of household, $21,900	**c** If you elect to use the lump-sum election method, check here (see instructions) ☐					
• If you checked any box under *Standard Deduction*, see instructions.	**7** Capital gain or (loss). Attach Schedule D if required. If not required, check here ☐				**7**	13,586
	8 Additional income from Schedule 1, line 10				**8**	0
	9 Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your **total income**				**9**	112,211
	10 Adjustments to income from Schedule 1, line 26				**10**	0
	11 Subtract line 10 from line 9. This is your **adjusted gross income**				**11**	112,211
	12 **Standard deduction or itemized deductions** (from Schedule A)				**12**	14,600
	13 Qualified business income deduction from Form 8995 or Form 8995-A				**13**	95
	14 Add lines 12 and 13				**14**	14,695
	15 Subtract line 14 from line 11. If zero or less, enter -0-. This is your **taxable income**				**15**	97,516
For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.						Form **1040** (2024)

The standard deduction for people under 65 and not blind is listed to the left on Form 1040, line 12, and is highlighted above in blue.

Since this taxpayer's Form 1040, line 12 value is equal to the standard deduction for a single taxpayer, they did not file a Schedule A.

Older taxpayers may file Form 1040-SR, which is a large-type version of Form 1040. Form 1040-SR has a table of standard deductions that includes the 65-and-over supplement to the standard deduction.

If a taxpayer is 65 or older, and/or is blind, their standard deduction will be larger than the values in the table in Form 1040. You can calculate any taxpayer's standard deduction using the Table 7 from IRS Publication 501, *Dependents, Standard Deduction, and Filing Information*, 2024, page 25, which is reproduced below.

Table 7. **Standard Deduction Chart for People Born Before January 2, 1960, or Who Are Blind***

Check the correct number of boxes below. Then go to the chart.

You:	Born before January 2, 1960 ☐	Blind ☐
Your spouse:	Born before January 2, 1960 ☐	Blind ☐

Total number of boxes you checked ☐

IF your filing status is...	AND the number in the box above is...	THEN your standard deduction is...
Single	1	$16,550
	2	18,500
Married filing jointly	1	$30,750
	2	32,300
	3	33,850
	4	35,400
Qualifying surviving spouse	1	$30,750
	2	32,300
Married filing separately**	1	$16,150
	2	17,700
	3	19,250
	4	20,800
Head of household	1	$23,850
	2	25,800

* If someone else can claim you (or your spouse if filing jointly) as a dependent, use Table 8 instead.

** You can check the boxes for "Your spouse" if your filing status is married filing separately and your spouse had no income, isn't filing a return, and can't be claimed as a dependent on another person's tax return.

On a tax return transcript, the deduction, whether standard or itemized, appears in the Tax and Credits section, near the top, in the *standard deduction per computer* line. If this value equals the standard deduction for the taxpayer, the taxpayer did not file a Schedule A.

Tax and Credits

65 or over:	No
Blind:	No
Spouse 65 or over:	No
Spouse blind:	No
Standard deduction per computer:	$14,600.00
Additional standard deduction per computer:	$0.00

The additional standard deduction for taxpayers 65 and over, and taxpayers who are blind, are reported on the next line.

How Do I Know if a Taxpayer Filed a Schedule B?

The primary reason a taxpayer will be required to file a Schedule B is that the sum of their interest and dividends on Form 1040, lines 2b and 3b, is greater than $1,500. On the sample tax return below, this sum is $7,499 plus $13,507, which equals $21,006. This taxpayer was required to file a Schedule B.

Income	1a	Total amount from Form(s) W-2, box 1 (see instructions)					1a	76,601
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.	b	Household employee wages not reported on Form(s) W-2					1b	
	c	Tip income not reported on line 1a (see instructions)					1c	
	d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)					1d	
	e	Taxable dependent care benefits from Form 2441, line 26					1e	
	f	Employer-provided adoption benefits from Form 8839, line 29					1f	
If you did not get a Form W-2, see instructions.	g	Wages from Form 8919, line 6					1g	
	h	Other earned income (see instructions)					1h	0
	i	Nontaxable combat pay election (see instructions)	1i					
	z	Add lines 1a through 1h					1z	76,601
Attach Sch. B if required.	2a	Tax-exempt interest	2a	1,543	b	Taxable interest	2b	7,499
	3a	Qualified dividends	3a	9,578	b	Ordinary dividends	3b	13,507
Standard Deduction for-	4a	IRA distributions	4a	1,621	b	Taxable amount	4b	1,018
	5a	Pensions and annuities	5a		b	Taxable amount	5b	0

Other reasons that trigger a Schedule B filing requirement include:

- Any of their interest is from a seller-financed mortgage, accrued bond interest, or original issue discount
- They received interest or dividends from assets held in a foreign account
- They cashed out United States Savings Bonds and claimed the tax deduction for using the proceeds to pay for their or a dependent's college tuition (or deposited the proceeds into a Qualified Tuition Plan)

You will not be able to tell if one of these requirements triggered a Schedule B filing from Form 1040.

Note: The Schedule B portion of the tax transcript is titled "Interest and Dividends" and does not include "Schedule B" in the title.

Interest and Dividends

Gross Schedule B interest:	$7,499.00
Taxable interest income:	$7,499.00
Excludable savings from bond interest:	$0.00
Gross Schedule B dividends:	$13,507.00
Dividend income:	$13,507.00
Foreign accounts indicator:	No
Required to file Financial Crimes Enforcement Network (FinCEN) Form 114:	No

How Do I Know if a Taxpayer Filed a Schedule D?

The taxpayer filed a Schedule D if Form 1040, line 7 has a non-zero value and the box on line 7 is **not** checked. In the sample tax return below, since the box on line 7 is not checked, the taxpayer **did file** a Schedule D.

Married filing jointly or Qualifying surviving spouse, $29,200 Head of household, $21,900 If you checked any box under *Standard Deduction,* see instructions.	7	Capital gain or (loss). Attach Schedule D if required. If not required, check here . . . . ☐	7	13,586
	8	Additional income from Schedule 1, line 10	8	0
	9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your **total income**	9	112,211
	10	Adjustments to income from Schedule 1, line 26	10	0
	11	Subtract line 10 from line 9. This is your **adjusted gross income**	11	112,211
	12	**Standard deduction or itemized deductions** (from Schedule A)	12	14,600
	13	Qualified business income deduction from Form 8995 or Form 8995-A	13	95
	14	Add lines 12 and 13	14	14,695
	15	Subtract line 14 from line 11. If zero or less, enter -0-. This is your **taxable income**	15	97,516
		For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.		Form **1040** (2024)

How Do I Know if a Taxpayer Filed a Schedule E or Schedule F?

The taxpayer filed a Schedule E if Form 1040, Schedule 1, line 5 has a non-zero value. It is possible, however, that the taxpayer filed a Schedule E even if the value on Schedule 1, line 5 has a zero value. You cannot tell definitively that a taxpayer did not file a Schedule E from Form 1040 or Schedule 1.

The taxpayer filed a Schedule F if Form 1040, Schedule 1, line 6 has a non-zero value. It is possible, however, that the taxpayer filed a Schedule F even if the value on Schedule 1, line 6 has a zero value. You cannot tell definitively that a taxpayer did not file a Schedule F from Form 1040 or Schedule 1.

How Do I Know if a Taxpayer Filed a Schedule H?

The taxpayer filed a Schedule H if there is a non-zero value on Schedule 2, line 9. Since Schedule H is used to calculate the social security and Medicare tax owed by the taxpayer on behalf of their household employee(s), a non-zero value on Schedule 2, line 9 is definitive that Schedule H was filed. A zero value on this line definitively means no Schedule H was filed.

In the sample tax return, since Schedule 2, line 9 is 0, this taxpayer did not file a Schedule H.

9	Household employment taxes. Attach Schedule H	9	0
10	Repayment of first-time homebuyer credit. Attach Form 5405 if required	10	0
11	Additional Medicare Tax. Attach Form 8959	11	0
12	Net investment income tax. Attach Form 8960	12	0
13	Uncollected social security and Medicare or RRTA tax on tips or group-term life insurance from Form W-2, box 12	13	0
14	Interest on tax due on installment income from the sale of certain residential lots and timeshares	14	
15	Interest on the deferred tax on gain from certain installment sales with a sales price over $150,000	15	
16	Recapture of low-income housing credit. Attach Form 8611	16	
			(continued on page 2)
	For Paperwork Reduction Act Notice, see your tax return instructions.		**Schedule 2 (Form 1040) 2024**

When Should I Check if the Lettered Schedules Answer is Correct or Not?

Since the lettered schedules question(s) only impact whether an applicant is eligible for the exemption from asset reporting, it only matters if changing an incorrect answer will flip the student from eligible to ineligible for the exemption, of vice versa.

So, if the student is eligible for the asset exemption due to being eligible for Maximum Pell Grant based on the poverty guideline multiples, or because they or someone in their family size received a federal benefit, then the answer to the lettered schedules question is irrelevant to their Title IV aid eligibility (the applicant will be exempt from asset reporting no matter what the answer to these questions is). So, it would not be necessary to check them for accuracy.

Conversely, if the student is not eligible for the asset exemption because they are not eligible for Maximum Pell Grant based on the poverty guideline multiples, and no one in their family size received a federal means-tested benefit, then the student's eligibility for the asset reporting exemption may depend on the lettered schedules question(s) being answered correctly. In this case, an incorrect answer would only be impactful if the primary contributor's AGI is less than $60,000, and their profit or loss from IRS Form 1040 Schedule C is between –$10,000 and $10,000, inclusive.

Here are some examples:

Example 1: Your dependent student's initial ISIR shows that they are not exempt from asset reporting. The student reported that they have $10,000 in cash and $10,000 in investments, so their student contribution from assets is $4,000.00. The IRS Response Code for the student's Parent Contributor is CUI//SP-TAX 214-No Return on File CUI//SP-TAX, so they were asked to manually enter their tax data into the ISIR. They reported having an AGI of $58,500, income earned from work of $58,500, IRA deduction of $14,000, no federal means-tested benefits, net Schedule C income of $0, and "Don't Know" to all the lettered schedules answers. The student sends you an email asking why they did not receive more Pell Grant.

The student does not qualify for the exemption from asset reporting because:

- They are not eligible for Maximum Pell based on the poverty guideline multiples.
- They did not report having any federal means-tested benefits.
- Because "Don't Know" answers to the lettered schedules questions are treated as "Yes" answers, they are not eligible for the asset reporting exemption based on the less-than-$60,000-AGI criteria because the FAFSA Processing System assumes they filed at least one lettered Schedule.

So, in this example, if we were able to determine that the student's parents did not file the lettered Schedules (A, B, D, E, F, and H), we could correct the "Don't Know" answers to "No." This would create eligibility for the asset reporting exemption for the application, eliminating the impact of the student's assets in the SAI, reducing the SAI by at least 4,000.00. This would likely create more Pell Grant eligibility through the correction process.

Example 2: Your independent student manually entered tax data into their FAFSA because their IRS Response Code is CUI//SP-TAX 214–No Return on File CUI//SP-TAX. They are exempt from asset reporting, based on the less-than-$60,000-AGI criteria. They are selected for V1 verification, and you collect their tax return. The tax return shows that they filed a Schedule E to report income from a rental property.

Since the student's exemption from asset reporting is based, in part, on their "No" answers to the lettered schedules questions, you have conflicting information that must be resolved. The student is not eligible for the asset exemption. You need to correct their answer to the Schedule E question in order to remove the asset exemption from their ISIR.

But – all you've determined so far is that their answer to the Schedule E question is incorrect and the applicant is required to report assets on the FAFSA. The current ISIR does not have asset values. See here for a discussion of how to address this without creating an intermediate ISIR that is rejected for not having required answers to the asset values.

And – since you know they own a rental property, you'll want to check to make sure that they report the value of that rental property in the investments line, and if they don't, find out why they valued their rental property at 0.

Does the FA-DDX Ever Return an Incorrect Answer to the Lettered Schedules Questions?

Yes, it does. And it's not uncommon. The FA-DDX will return a "Yes" answer to the Schedule D question in common situations where the contributor did not file a Schedule D.

The FA-DDX will return a "Yes" answer to the Schedule D question if one or both of two things occur:

- All of their income on Form 1040, line 7, is from "capital gains distributions" that were reported to the taxpayer on Form 1099-DIV;

  AND/OR

- The taxpayer reported a value for qualified dividends on Form 1040, line 3a.

3a Qualified dividends	**3a**	9,578	**b** Ordinary dividends	**3b**	13,507

Both capital gains distributions and qualified dividends are taxed at a lower rate than other kinds of income. The tax calculation occurs on the *Schedule D Tax Worksheet* at the end of the Schedule D *instructions*. It is not part of the Schedule D. Still, portions of this worksheet appear on the Schedule D portion of the tax return transcript, which fools the FA-DDX into thinking a Schedule D was filed. *The Schedule D Tax Worksheet* is not part of the tax return but because its use triggers a Schedule D portion of the tax return transcript, the FA-DDX thinks a Schedule D was filed.

You can see right on Form 1040, line 7, if a Schedule D was filed. If there is an "X" next to the phrase *If not required check here*, then the taxpayer did not file a Schedule D, no matter what the FA-DDX says.

7 Capital gain or (loss). Attach Schedule D if required. If not required, check here	X	**7**	45

If you determine that the only reason an applicant was not exempt from asset reporting is that the FA-DDX returns a "Yes" to the Schedule D question, but see from the tax return that they did not file a Schedule D, you can correct this in the ISIR.

What if a Person Filed a Lettered Schedule But was Not Required to Do So?

It is not uncommon for tax preparers or tax preparation software to produce and submit tax forms that did not need to be produced or submitted. Some tax preparers charge "by the form," so may produce unnecessary tax forms to inflate their fees. Some taxpayers like having all the schedules filled out for record keeping purposes. Common examples of forms that are produced and/or submitted but are not required include:

- Schedule A may be produced to keep track of the values on it, or because a Schedule A is needed for a state tax return, even if the sum of the itemized deductions is smaller than the federal standard deduction.
- Schedule B may be produced even if the taxpayer did not meet the $1,500 interest and dividend threshold to meet the Schedule B filing requirement.
- Tax software may produce a blank schedule C, E, F, or H if the taxpayer used these forms in the past to report income and expenses from a business, rental property, trust, or farm, that no longer exists.

We have no guidance about whether we can change a "Yes" answer that appears in an ISIR for a Form that was not required to be filed. But a little FAFSA history lesson may give us an idea (please feel free to skip the rest of this section if you do not care about FAFSA history!). ***Nothing I say in the rest of this section should be taken as a recommendation to change FAFSA answers.***

Form 1040 went through a significant restructuring in 2018. Prior to 2018, United States taxpayer could file Form 1040, or one of two simpler forms: Form 1040A or Form 1040EZ. For FAFSAs in which the base year was 2017 or earlier, when the Form 1040A or 1040EZ was available, if the primary contributor was **eligible** to file a Form 1040A or 1040EZ, then, if their income was low enough, they would either be exempt from asset reporting or receive an automatic Zero Expected Family Contribution (EFC).

> **Tax return filed and tax filing status (32–35, 80–83 for parents).** These questions ask if a 2016 tax return was completed, which return was or will be filed, what the filing status was or will be, and whether the student or parents were eligible to file a 1040A or 1040EZ. The answers are used in part to identify if the student is eligible for the simplified needs test or the auto zero EFC (see the margin note on page 17) and to find inconsistencies between the FAFSA and the tax return.
>
> FSA HB December 2017

Application and Verification Guide, 2018-2019, page 14

> 33. What income tax return did you file or will you file for 2016?
>
> IRS 1040 1
>
> IRS 1040A or 1040EZ 2
>
> A foreign tax return. **See Notes page 9.** 3
>
> A tax return with Puerto Rico, another U.S. territory, or Freely Associated State. **See Notes page 9.** 4

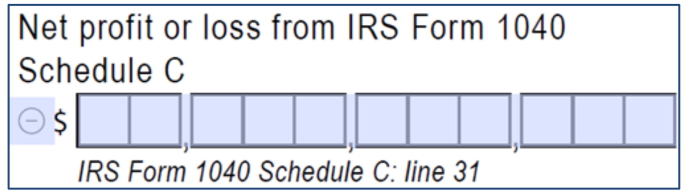
2018-2019 FAFSA

The FAFSA included a question asking the contributor what kind of tax return they filed. But the *Application and Verification Guide* clearly stated that ***eligibility to file a 1040A or 1040EZ*** was the relevant criterion. Financial Aid Administrators would review filed Forms 1040 to determine if the contributor or their spouse or parent *could have filed* as Form 1040A or 1040EZ, and would update the FAFSA to reflect the applicant's primary contributor filed a 1040A or 1040EZ if they could have. This gave the applicant the benefit of the asset reporting exemption or the Auto-zero formula variant.

As I mentioned, we do not currently have guidance that allows us to apply a "was required to file" standard to the lettered schedules questions. But a case can be made that such a standard might apply. And if a submitted lettered Schedule has no values other than zero on it, it was not required to be filed.

Net Profit or Loss from IRS Form 1040 Schedule C

2024 IRS Tax Return
Schedule 1, Line 3



Please see the Income Earned from Work section of the Field Guide for images of this answer on the tax return and the tax return transcript.

While the instructions in the FAFSA tell contributors that this value comes from Schedule C, line 31, the instructions do not tell people what to do if the tax return contains more than one Schedule C. The FA-DDX pulls this value into the FAFSA from Schedule 1, line 3. Schedule 1, line 3 is the best source for the answer to this question.

Although Schedule 1, line 3 is a component of the income earned from work question, the use of the answer to this question is unrelated to income earned from work and is only used as a factor when determining whether an applicant is exempt from asset reporting or not.

Should the Net Profit or Loss from IRS Form 1040, Schedule C be Treated as 0 if the Answer is a Negative Number?

If the value on Schedule 1, line 3 is negative, report the negative value as the answer. This differs from the instructions for the income earned from work question, where negative values are treated as 0.

How is the Net Profit or Loss from Schedule C Used in the Determination of an Applicant's Title IV Aid Eligibility?

An applicant will be exempt from reporting assets on the FAFSA if they meet one of three criteria. The value of the net profit or loss from Schedule C is a component of the second of these criteria.

- They are eligible for Maximum Pell Grant because the sum of their AGI plus FEIE is less than or equal to the relevant multiplier of their poverty guideline;

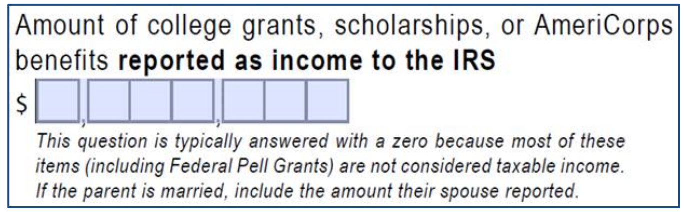
  OR

- Their AGI is less than $60,000, they did not file Schedules A, B, D, E, F, or H, and **if they filed a Schedule C, the net value of their Schedule C income is between –$10,000 and $10,000, inclusive**;

  OR

- Someone in their family received a federal benefit in the base year or the year after the base year. If no one in the family received these benefits in these two years but does receive them before the end of the academic year, the FAA can use professional judgment, on a case-by-case basis, to treat the applicant as though the family member had the benefits in 2024 or 2025.

Amount of College Grants, Scholarships, or AmeriCorps Benefits Reported as Income to the IRS


Amount of college grants, scholarships, or AmeriCorps benefits **reported as income to the IRS**

$

This question is typically answered with a zero because most of these items (including Federal Pell Grants) are not considered taxable income. If the parent is married, include the amount their spouse reported.

2024 IRS Tax Return
See below

For the purposes of this section of the FAFSA Tax Field Guide, whether we use the words "scholarship" "grant," or "fellowship," we are referring to any education fund that is considered any of these. The words are interchangeable in the tax code and in the need analysis.

Although AmeriCorps benefits are not necessarily scholarships, the Higher Education Act includes them in the definition of "Income Offsets," and the FAFSA includes them with Scholarships and Grants as income that should be reported in this question.

How are Taxable Scholarships Used in the Determination of an Applicant's Title IV Aid Eligibility?

The Higher Education Act includes a provision that attempts to protect students who received financial aid in a base year from receiving less financial aid in the related academic year simply because they received financial aid in the base year. For example, if a student received and earned federal work-study funds in 2024 and filed a tax return, their work-study wages, which are taxable earned income, would be included in their AGI. This means that their AGI is higher because they received federal work-study in the past, than it would have been had they not received the work study pay. To honor the intent in the Higher Education Act to protect students from losing financial aid for the upcoming academic year because they had financial aid in the base year, the work-study is excluded from the income that is assessed to determine the Student Aid Index. Note that since it is part of the AGI, it can make an independent student ineligible for Maximum or Minimum Pell Grant, as the Pell process does not subtract taxable financial aid from the AGI before comparing the AGI to the appropriate multiples of the poverty guidelines.

The *Amount of College Grants, Scholarships, or AmeriCorps Benefits Reported as Income to the IRS* is treated the same way as work-study. If a contributor to the FAFSA reports taxable grants or scholarships or AmeriCorps benefits on their FAFSA, the value will be subtracted from the contributor's income before the income is converted into a Parent or Student Contribution.

Why Won't the Department of Education Give Us Tax Lines to Use to Check the Taxable Scholarship Question on the FAFSA?

I have been wondering about this since 2022, when the IRS created Schedule 1, line 8r, *scholarship and fellowship grants not reported on Form W-2*. But after years of thinking about it, I understand their reluctance to provide tax lines, though they have not explained the reason for their unwillingness.

First, a scholarship can be tax-exempt if it is used to pay for QEEs for primary, secondary, or higher education. The FAFSA Simplification Act specifies that only college grant and scholarship aid that is included in a contributor's AGI should be reported on the FAFSA. So, it is possible that the tax return includes taxable primary or secondary school scholarships that should not be reported on the FAFSA.

Second, while we can easily point to a couple of lines on the tax return that should include taxable scholarships, there are some (rare) circumstances when a taxable scholarship that should be reported on the FAFSA appears on different lines.

What Should I Do If a Contributor Reports a Large Taxable Scholarship on Their Portion of the FAFSA and It Doesn't Make Sense?

You'd need to ask the contributor to confirm that the value they reported was, in fact, a taxable scholarship or AmeriCorps benefit. Collecting the tax return as part of the review would be useful, because if you do not see any values on Schedule 1, line 8s or Schedule 1, line 8z (AmeriCorps benefits), you could ask the contributor to let you know which line on their tax return represents their taxable scholarship.

What Makes a Scholarship Taxable?

It's easier to describe what makes a scholarship tax-exempt, so let's start there. A scholarship is tax-exempt if it is used to pay for ***Qualified Education Expenses (QEEs)***[3]*. The QEES are:*

- Tuition and fees required to enroll at or attend an eligible educational institution;

  AND

- Course-related expenses, such as fees, books, supplies, and equipment that are required for the courses at the eligible educational institution. These items must be required of all students in your course of instruction.

So, if a student receives a Pell Grant and the Pell Grant is smaller than the student's tuition and fees to enroll at their institution, plus required course related materials, the Pell Grant is tax-exempt.

But, if the student has, say, a full-tuition scholarship and a Pell Grant, all or part of the Pell Grant may be taxable. For example, if the full-tuition scholarship fully pays for the tuition and fees, then the only QEE left for the Pell Grant to cover is the course related materials. If the student received a $7,395 Pell Grant in 2024 and paid for $1,000 for required course related materials in the same year, then $1,000 of the Pell Grant is tax-exempt (because it paid for the materials QEE), and $6,395 is taxable, because, since all of the QEEs were covered by other grants and scholarships, the Pell Grant has to pay for non-qualified (non-QEE) expenses, like housing or food, transportation, personal expenses, etc.

Also, any scholarship or portion of a scholarship that is a payment for work is taxable as W-2 wages.

How Can Grants Like the Pell Grant be Sometimes Taxable and Sometimes Tax-exempt?

If a grant is unrestricted, which means if can be used to pay for any component of the Cost of Attendance (CoA), then its taxability is based on which education expenses it pays.

What About Restricted Grants?

If a student receives a tuition-only scholarship, then that scholarship is always tax-exempt because it can only be used to pay for a QEE – tuition.

If, on the other hand, a student receives a scholarship that can only be used to pay for housing, that scholarship is always taxable, because the only expense it can pay for is not a QEE. It would be taxable even if it were the only grant or scholarship the student received, even if the tuition the student paid for was larger than the scholarship.

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[3] There are several tax benefits for higher education, and each has its own definition of qualified education expenses (QEEs). Since we are focused on taxable scholarships in this section of the *FAFSA Tax Field Guide*, QEEs will always mean those QEEs that make a scholarship tax-exempt.

What About Tuition Waivers?

Tuition waivers are generally treated as though they were scholarships that paid for tuition – they are tax-exempt. However, if a student receives a tuition waiver in exchange for working as a teaching assistant, the value of their work is considered taxable wages, even if the student never received a paycheck. The value of their work should be reported to them on a W-2. The remainder of the tuition waiver is tax-exempt.

Is the Taxability of Scholarships Tied to Our Institution's Application of Payments Process?

No. The student may allocate their scholarship payments in any way they want, as long as they assign restricted scholarships to the appropriate expenses. The IRS encourages students with unrestricted scholarships and grants that *could* pay solely for QEEs, to consider *deeming* $4,000 (or $10,000) of the scholarship as having paid for non-QEEs, so that they can claim the American Opportunity Credit (to claim the maximum American Opportunity Credit, the taxpayer must have $4,000 of QEEs for that tax break not attached to another tax break) or the Lifetime Learning Credit (to claim the maximum Lifetime Learning Credit, the taxpayer must have $10,000 of QEEs for that tax break not attached to another tax break). The ability to deem otherwise tax-exempt grants and scholarships as taxable grants or scholarships in order to claim a more valuable education credit is independent of the institution's actual application of payments process.

What Lines on the Tax Return Would Have Taxable Scholarships, and How Can We Use Them When We are Reviewing a FAFSA?

Tax Form and Line	How Does the Line Relate to the FASFA Question
Schedule 1, line 8r ***Scholarship and fellowship grants not reported on Form W-2***	**Schedule 1, line 8r** should include traditional grants and scholarships that were used to pay for non-qualified expenses. The taxable scholarships we discussed above would be reported here. Generally, any value on Schedule 1, line 8r will be reportable on the FAFSA; it is possible (but exceedingly rare) that it might be for a non-reportable pre-college grant or scholarship.
Schedule 1, line 8z ***Other Income***	On a properly filed tax return, any AmeriCorps benefits will be reported **Schedule 1, line 8z**. Since this line is a catchall for many other kinds of income, the word "AmeriCorps" should appear on Schedule 1, line 8z, indicating that at least some of the value on this line is AmeriCorps benefits that should be reported on the FAFSA. These benefits are always reportable on the FAFSA, even if they were earned by someone who was not enrolled in college during their service.
Form 1040, line 1a ***W-2 Wages***	If a taxpayer's scholarship included a work requirement, and if the scholarship provider was following the rules, the earned portion of the scholarship will have been reported to the student as W-2, box 1 wages, and this portion of the scholarship should appear on **Form 1040, line 1a**. The tax return itself does not distinguish between traditional wages and scholarship wages, so it is not possible from the tax return to determine how much, if any, of the income on Form 1040, line 1a should be reported as taxable scholarships on the FAFSA.
Other Earned Scholarship Income ***Various***	Although vanishingly rare, it is possible that a self-employed person **Schedule C, line 1**), a farmer (**Schedule F, line 1**), or a household employee who did not receive a W-2 (**Form 1040, line 1b**), can have been given a scholarship with a work-related component that can be reported on the FAFSA. And I can even imagine, if I stretch the tax code far enough, that a taxable scholarship could end up as tip income not reported on a W-2 (**Form 1040, lines 1c**). But stretching the tax code that far would break the fabric of the universe.

Practically, almost all taxable scholarships are reported on Schedule 1, line 8r. If Congress had really wanted a simpler FAFSA, they'd have specified that only scholarships reported on Schedule 1, line 8r and AmeriCorps benefits should be excluded from FAFSA income. And they should have included Schedule 1, line 8r and the AmeriCorps benefits as tax items the IRS can share with the Department of Education.

Amended Tax Returns (Form 1040-X)

Taxpayers use Form 1040-X to make material corrections to tax forms they have already filed. Much like FAFSAs must be updated if the initial submission contained incorrect information since the FAFSA Processing System cannot calculate accurate aid eligibilities with incorrect information, the IRS cannot calculate accurate tax liabilities with inaccurate information on Form 1040.

When the IRS processes a tax return, it runs a number of checks during processing to determine if the tax return was filed correctly. It may not identify all errors in a tax return, especially if that tax return was filed early in the processing cycle, but it may catch some during processing. Typically, the IRS will correct the following errors during the processing step:

- Calculation errors
- Incorrectly claimed deductions or credits
- Imputing missing information from information available to the IRS

Any errors corrected during the processing stage will be reflected in the FA-DDX dataset and appear on the tax return transcript in the “per computer” line for the changed value.

Once the tax return has been processed, the FA-DDX dataset and the tax return transcript are frozen. Any changes made after processing will not be reflected in the datasets.

If a financial aid administrator (FAA) learns that the tax return of a FAFSA contributor was amended or changed by the IRS, or if the FAA determines, in the course of reviewing a FAFSA, that the tax return was filed incorrectly and needs to be amended, then the data from the FA-DDX and the tax return transcript are deemed possibly incorrect, and cannot be used without reviewing the amended return.

When are FAAs Required to Collect Form 1040-X?

FAAs must collect Form 1040-X and all forms and schedules file with it in (at least) two situations:

- If an applicant is selected for V1 or V5 verification, and the FAA has learned that the tax return was amended, then the FAA must collect a signed copy of Form 1040-X and any forms and schedules filed with it, as the primary income verification document.
- If the FAA determines that the tax data in the FAFSA, either FTI or manually entered, is from a tax return that was filed incorrectly, they will need to collect an amended tax return, when it is available, to correct the FAFSA data to the corrected tax data.

Does an FAA Need to Review Every Amended Tax Return They Learn About?

No. If, for example, your applicant’s ISIR contains both FTI and manual data, you are required to find out why the contributor entered manual data into their portion of the FAFSA. If the applicant is not selected for V1 or V5 verification, and the contributor explains that the manual data are from an amended tax return, you do not need to collect Form 1040-X unless you have reason to doubt that the manually entered tax information is correct.

What if an FAA Has Determined that the Tax Return from which the FAFSA Data are Derived was Filed Incorrectly, and the Contributor Refuses to Amend Their Tax Return?

If you are certain that the tax return was filed incorrectly, you must pause processing of the aid application until you receive a property filled out amended return. If the contributor refuses to provide one to you, the applicant cannot receive federal financial aid because you cannot determine their eligibility for financial aid with inaccurate information.

What if I am Certain that a Tax Return was Filed Incorrectly, but the Accountant Who Prepared the Return Insists that it was Filed Correctly?

FSA has stated that there are two ways to resolve conflicting information:

- You collect the information you need to correct the FAFSA and use this documentation to correct the data in the FAFSA;

  OR

- You obtain a reasonable explanation of why the original information that you were concerned about, is, in fact, correct.

A statement stating that there is no error in the tax return is not a reasonable explanation of why the presumed error does not exist. A reasonable explanation contains information you were not aware of that shows that the concerns you had were based on too little information.

Here's some examples:

Example Facts: Your dependent student's parents reported that they were married on their 2026-2027 FAFSA. One parent filed a United States tax return using the head of household filing status. The other parent did not file a tax return. Since the student is a third-year student on your campus, you looked at their 2024-2025 FAFSA, which was filed on December 30th, 2024, and see that the parents reported that they were married on that FAFSA as well. You determine that since the student's parents were married on the last day of 2024, then the parent who filed a tax return probably should have used one of the married filing statuses. You reach out and ask them why the used the head of household status.

Outcome 1 – Reasonable Explanation: The parent replies that their spouse is not a United States citizen and that they are in the United States as a member of their nation's delegation to the United Nations. You know that a married person can use the head of household filing status if they are married to a nonresident noncitizen. You also know that a representative of a foreign government in the United States on the official business of their nation is not considered a resident of the United States. You have just learned that the second parent is a noncitizen (new information) and is not considered a resident of the United States (also new information). These facts together provide you with a reasonable explanation of why the head of household filing status is an acceptable filing status. You resolve the conflicting information by documenting in the student's record the facts that make the filing status correct and can continue to process the aid application based on the original dataset, which you have determined is accurate.

Outcome 2 – Not Enough Information: Instead of the parent answering your question, their accountant sends you a letter stating that they are a tax professional with thirty years of experience, and how dare you question their work. They state that the tax return was filed correctly and no amended return will be produced.

In this case, you did not get a reasonable explanation of why the information is correct. It does not meet the standard set by FSA for moving the file forward. You need to follow up with the parent and let them know that you need an explanation from them or their tax preparer, citing information from the IRS or another well-trusted source of tax information, which explains the use of the head of household filing status. You must continue the pause on processing the application until you receive a reasonable explanation, or an amended return with the correct filing status and updated numerical values based on this change.

You cannot force a FAFSA contributor to amend their tax return if they refuse to do so. But you also cannot award or disburse Title IV aid until they do.

Outcome 3 – Confirmation that the Tax Return is Wrong: The parent replies that their spouse, who has lived in the United States for decades, is undocumented. The couple are happily married and live together. The spouse never had a legal right to work, so never obtained a social security number, and never applied for an Individual Taxpayer Identification Number (ITIN). The parent explains that they are unable to file a tax return using a married status married taxpayers must include their spouse's SSN or ITIN on the tax return. Since their spouse has neither of these, the only filing status that they could use was head of household.

You realize that even though the spouse is a noncitizen, they have lived in the United States long enough to be considered a resident of the United States. You also know that a taxpayer living in the same home as their spouse can only use the head of household filing status if their spouse is a nonresident. Since the taxpayer is married to a resident noncitizen, and not a nonresident noncitizen, they have confirmed for you that the tax data in the FAFSA are incorrect, and that you cannot proceed with the processing of the student's application without data from an amended tax return.

If I Determine that a Contributor to a FAFSA is Required to Amend Their Tax Return, Do I Need to Get Conformation from the IRS that the Return was Filed?

No. If the 1040-X looks like it was correctly filled out, you may use it (as long as it has the proper signatures) without confirming it was filed with the IRS. In Outcome 3 (above), the parent who used the head of household filing status cannot file their amended tax return until their spouse obtains an ITIN. However, there is nothing stopping them from completing the 1040-X and necessary forms and schedules, as the tax year is over and other than the ITIN, no additional information is needed to correct the return.

Since the ITIN (or SSN) cannot change the student's eligibility for Title IV aid, a tax return that does not include an ITIN or SSN is not conflicting information and can be used to correct or update the FAFSA.

We Often Receive Forms 1040-X with Missing Answers in the Income Grid. Can We Accept These Forms?

Yes – in some cases. The IRS does not require a taxpayer to fill in every line of the Form 1040-X income grid if the AGI and standard/itemized deductions does not change. The chart on the right, from the *Instructions for Form 1040-X*, shows which lines must be filled in based on what changes led to the filing of the amended return.

See the tax return for the year you are amending to find the corresponding lines on your original return.

IF you are changing only...	THEN complete Form 1040-X...
filing status	lines 1–23.
income	lines 1–23.
adjustments to income	lines 1–23.
itemized or standard deductions	lines 1–23.
qualified business income deduction	lines 4a–23.
deductions for tips, overtime, car loan interest, or seniors from Schedule 1-A (Form 1040)	lines 4a–23.
tax before credits	lines 5–23.
nonrefundable credits	lines 6–23.
other taxes	lines 6–23.
payments and refundable credits	lines 11–23.

Form 1040-X

Form 1040-X is not year based. The taxpayer indicates at the top of the form for which year they are amending their tax return. Taxpayers often discover they've made an error over many years and may filed multiple amended returns – one for each year. Be sure to check the tax year for which the 1040-X was filed.

1040-X – Tax Year

Top of Form 1040-X, Under the Title Line

Form **1040-X** (Rev. February 2024)	Department of the Treasury—Internal Revenue Service **Amended U.S. Individual Income Tax Return** **Go to *www.irs.gov/Form1040X* for instructions and the latest information.**	OMB No. 1545-0074
This return is for calendar year (enter year) 2024 **or fiscal year** (enter month and year ended)		

What Do I Do If I Receive a Form 1040-X from the Wrong Tax Year?

First, make sure you get a copy of the Form 1040-X from the correct year.

Next, check to see if the student was or will be enrolled during an academic year for which the other Form 1040-X year was a base year.

If, for example, you are working on a 2026-2027 application and ask for an amended tax return for 2024, but receive one for 2023, ***you need to review the student's 2025-2026 FAFSA and financial aid eligibility*** even if that aid year has closed. If the student received an incorrect amount of Title IV aid in 2025-2026, because their aid was based on a tax return that was amended, you must adjust their aid based on the new information you received on the 2023 1040-X.

Similarly, if you receive a 2025 tax return and know that the student will enroll for the 2027-2028 academic year, you will need to check their 2027-2028 FAFSA against the 2025 Form 1040-X when you process it. Receiving the 2025 1040-X tells you that even though FA-DDX data from the 2025 return appears as FTI in the 2027-2028 FAFSA, these data may not be considered verified and will represent the data from a tax return that was changed and needs to be reviewed as conflicting information. In this case, you know you will have conflicting information to review and resolve before you even receive the FAFSA!

Form 1040-X – Explanation of Changes

Middle of Page 2

Although the explanation appears in the middle of Form 1040-X, page 2, it can be helpful to review the Explanation of Changes before moving elsewhere in the amended return.

Part II **Explanation of Changes.** In the space provided below, tell us why you are filing Form 1040-X.
Attach any supporting documents and new or changed forms and schedules.

```
I received a $10,000 payment for helping a neighbor's child with his
schoolwork in 2024, and did not realize that was taxable income and
not a gift.
```

First, note the instructions (highlighted). Taxpayers are instructed to attach supporting documents, and new or changed forms or schedules, to their Form 1040-X. You should collect the Form 1040-X as filed, including these supporting documents, and new and changed forms and schedules. Without them, you will not be able to review all of the FAFSA tax data elements (as we will see in the next section).

Although the *Application and Verification Guide* and other FSA publications and websites cite Form 1040-X only, they usually include the term "as filed". If you ask for, and only accept, Form 1040-X as filed, your review of the document will be much easier.

The stated explanation can help you in a few ways. First, it can give you a sense of where to start in your review of Form 1040-X. In the example amended tax return (above), the taxpayer reports that they received earned income that they did not report on their original return. Depending on how they reported it on their amended return, this will appear on Schedule C, which flows to Schedule 1, line 3, and then into Form 1040, line 8, or as other taxable income on Schedule 1, line 8z, which also flows into Form 1040, line 8. This means that *no FAFSA data that appears on the tax return before Form 1040, line 8, was changed during the amendment process*. Therefore, you would not need to review the wage component of the income earned from work question (Form 1040, line 1z), the tax exempt interest income (Form 1040, line 2a), the untaxed IRA distribution (Form 1040, line 4a – line 4b), or the untaxed pension distribution (Form 1040, line 5a – line 5b).

However, you do need to evaluate the income earned from work (since they may have reported this income on Schedule C, changing the value on Schedule 1, line 3), and all other FAFSA data that is derived from the tax return.

Can I Accept a Form 1040-X that Has No Explanation of Changes?

ED is silent on this. The IRS, however, flags Forms 1040-X that do not include an Explanation of Changes for manual review, slowing down their processing and usually triggering a request for additional information. It would be a best practice to treat the return as incomplete and ask for the explanation.

1040-X – Where is the Filing Status?

Under the Taxpayer's Name and Address Above the Income Grid

Form **1040-X** (Rev. February 2024)

Department of the Treasury—Internal Revenue Service

Amended U.S. Individual Income Tax Return

Go to *www.irs.gov/Form1040X* for instructions and the latest information.

OMB No. 1545-0074

This return is for calendar year (enter year) 2024 **or fiscal year** (enter month and year ended)

Your first name and middle initial	Last name	**Your social security number**
If joint return, spouse's first name and middle initial	Last name	**Spouse's social security number**
Home address (number and street). If you have a P.O. box, see instructions.	Apt. no.	**Presidential Election Campaign** Check here if you, or your spouse if filing jointly, didn't previously want $3 to go to this fund, but now do. Checking a box below will not change your tax or refund.
City, town, or post office. If you have a foreign address, also complete spaces below. / State	ZIP code	
Foreign country name / Foreign province/state/county	Foreign postal code	☐ **You** ☐ **Spouse**

Amended return filing status. You **must** check one box even if you are not changing your filing status. **Caution:** In general, you can't change your filing status from married filing jointly to married filing separately after the return due date.

☒ Single ☐ Married filing jointly ☐ Married filing separately (MFS) ☐ Head of household (HOH) ☐ Qualifying surviving spouse (QSS)

If you checked the MFS box, enter the name of your spouse unless you are amending a Form 1040-NR. If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent:

There will be a filing status even if the filing status has not changed. If you have asked the contributor to amend their tax return because you determined that their original return used an incorrect filing status, you should see the first change to the return here.

1040-X – Income Grid

Bottom of Form 1040-X, Page 1

The income grid displays information from the tax return before the amendment in column A, and the information from the amended tax return in column C. **The correct FAFSA data are in column C.**

Unfortunately, Form 1040-X is just a summary of the larger underlying Form 1040. Form 1040-X, line 1 is the Adjusted Gross Income (which comes from Form 1040, line 11). This means FAFSA data that comes from Form 1040, lines 1 to 10, which includes all of Schedule 1, Schedule B, Schedule C, Schedule D, Schedule E, and Schedule F, cannot be found on Form 1040-X. This is why it is critical that you ask not just for Form 1040-X, but for Form 1040-X with all supporting documents and new or changed forms or schedules.

	Enter on lines 1 through 23, columns A through C, the amounts for the return year entered above. Use Part II on page 2 to explain any changes.		A. Original amount reported or as previously adjusted (see instructions)	B. Net change—amount of increase or (decrease)—explain in Part II	C. Correct amount
	Income and Deductions				
1	Adjusted gross income. If a net operating loss (NOL) carryback is included, check here ☐	1	112,211	9,293	121,504
2	Itemized deductions or standard deduction	2	14,600	0	14,600
3	Subtract line 2 from line 1	3	97,611	9,293	106,904
4a	Reserved for future use	4a			
b	Qualified business income deduction	4b	95	1,859	1,954
5	Taxable income. Subtract line 4b from line 3. If the result for column C is zero or less, enter -0- in column C	5	97,516	7,434	104,950
	Tax Liability				
6	Tax. Enter method(s) used to figure tax (see instructions): Sch. D	6	14,885	1,639	16,524
7	Nonrefundable credits. If a general business credit carryback is included, check here ☐	7	395	0	395
8	Subtract line 7 from line 6. If the result is zero or less, enter -0-	8	14,490	1,639	16,129
9	Reserved for future use	9			
10	Other taxes	10	0	1,413	1,413
11	Total tax. Add lines 8 and 10	11	14,490	3,052	17,542
	Payments				
12	Federal income tax withheld and excess social security and tier 1 RRTA tax withheld. (**If changing**, see instructions.)	12	13,548	0	13,548
13	Estimated tax payments, including amount applied from prior year's return	13	0	0	0
14	Earned income credit (EIC)	14	0	0	
15	Refundable credits from: ☐ Schedule 8812 Form(s) ☐ 2439 ☐ 4136 ☐ 8863 ☐ 8885 ☐ 8962 or ☐ other (specify):	15	0	0	0
16	Total amount paid with request for extension of time to file, tax paid with original return, and additional tax paid after return was filed	16			0
17	Total payments. Add lines 12 through 15, column C, and line 16	17			13,548

These FAFSA data can be found directly on Form 1040-X:

- **Adjusted Gross Income** Form 1040-X, line 1, column c
- **Income Tax Paid** Form 1040-X, line 11, column c

You can also tell from Form 1040-X if the taxpayer received an **earned income credit** in the tax year (Form 1040-X, line 14, column c), if they may have **education credits** (the line 15 check box for Form 8863), or if they may have **premium tax credits** (the line 15 check box for Form 8962). You will need to review these Forms to determine the FAFSA answers – the checkboxes just alert you to the possibility that they changed.

The Account Transcript

If the contributor failed to keep a copy of their Form 1040-X, or you don't believe the 1040-X they provided you is correct, or if you decide, for a reason specific to the applicant's case, that you want to know that the amended tax return was filed before processing the FAFSA, you can ask for the Account Transcript.

The account transcript is a two-part document. The first part of the account transcript contains a (very) brief summary of the data *from the most recently processed tax return*, while the second is a running summary of tax related transactions that have occurred for the tax year.

Internal Revenue Service
United States Department of the Treasury

This Product Contains Sensitive Taxpayer Data

Account Transcript

Request Date:	09-10-2025
Response Date:	09-10-2025
Tracking Number:	108764015745

Form Number:	1040
Report for Tax Period Ending:	12-31-2024
Taxpayer Identification Number:	XXX-XX-

Redacted Taxpayer Name
Redacted Street Address

For security purposes, all transcripts produced by the IRS will include only the last four digits of the taxpayer's taxpayer identification number, and only four letters from the taxpayer's names and street.

The account transcript is year specific. The **relevant tax year** is in row highlighted above at the top of the account transcript.

Can I Get the Record of Account Transcript Instead?

Yes. The record of account transcript is a combination of the account transcript (which will be at the top) and the tax return transcript (which begins when the transactions section of the account transcript ends). The transition happens when the highlighted text appears:

SSN provided:	XXX-XX-
Report for Tax Period Ending:	12-31-2024

The following items reflect the amount as shown on the return, and the amount as adjusted, if applicable. They do not show subsequent activity on the account.

SSN:	XXX-XX-
Spouse SSN:	

Note the second sentence: the values on the tax return transcript portion of the record of account transcript are identical to the values on a tax return transcript. They are derived from the original return. Only changes made to the return during the processing of the original return are reflected.

If you collect a record of account transcript instead of an account transcript, the top of the first section will be identical to the top of the account transcript, with one exception: the text "Record of Account" will appear at the top instead of "Account Transcript."

Internal Revenue Service
United States Department of the Treasury

This Product Contains Sensitive Taxpayer Data

Record of Account

Request Date:	09-10-2025
Response Date:	09-10-2025
Tracking Number:	108764024293

Form Number:	1040
Report for Tax Period Ending:	12-31-2024
Taxpayer Identification Number:	XXX-XX-

Account Transcript – Information from the Return or as Adjusted

The *Information from the return or as adjusted* section of the account transcript includes four data elements from the amended return and some data from the original return.

**** Information from the return or as adjusted ****

Exemptions:	From the Most Recently Processed Return Will include data from the 1040-X if it Has been Processed	01
Filing Status:		Single
Adjusted Gross Income:		$121,504.00
Taxable Income:		$104,950.00
Tax per return:	From the Original Tax Return	$14,490.00
SE taxable income taxpayer:		$9,235.00
SE taxable income spouse:		$0.00
Total self employment tax:		$0.00
Return due date or return received date (whichever is later):		04-15-2025
Processing date:		04-28-2025

The following items (**highlighted in red**) are from the amended return (if the transcript was produced after the amended tax return was processed):

- Exemptions
- Filing Status
- Adjusted Gross Income
- Taxable Income

The remaining tax values are from the original return.

This means that in this account transcript, the **Adjusted Gross Income** is the correct FAFSA answer, as it comes from the amended return, but the **tax per return** is from the original return and needs to be adjusted based on information in the transactions section of the transcript.

Calculating the Income Tax Paid from an Account Transcript

To calculate the FAFSA income tax paid, you will need to start with the "tax per return" (**highlighted in blue, above**). Then go into the **Transactions section** of the transcript and look for line items that are related to tax payments.

TRANSACTIONS

CODE	EXPLANATION OF TRANSACTION	CYCLE	DATE	AMMOUNT
150	Tax Return Filed #####-###-#####-#	########	04-28-2025	$14,490.00
806	W-2 or 1099 withholding		04-15-2025	$13,548.00
610	Payment with return		04-08-2025	-$942.00
971	Amended return filed of claim Forwarded for processing		06-03-2025	$0.00
977	Amended return filed #####-###-#####-#		06-04-2025	$0.00
290	Additional Tax Assessed	########	07-14-2025	$0.00
290	Additional Tax Assessed	########	07-13-2025	$3,052.00
	SSN provided:			XXX-XX-
	Report for Tax Period Ending:			12-31-2024

Note that the transcript will indicate that an amended return was filed (highlighted in **red**, above) and, if the amended return resulted in an increase in the tax owed, the additional tax owed will also appear (**blue**).

In this example, the original tax from the Account Transcript, was $14,490.00 (this is the "Income tax paid" in the *Information from the return or as adjusted* section of the Account Transcript. The **Additional Tax Assessed** is $3,052. The correct value for the Income Tax Paid in the FAFSA is now **$17,542** ($14,490.00 + $3,052.00).

If the filing of the amended tax return results in a decrease in tax owed (and, potentially, a refund), then the Account Transcript will contain a line item with wording something like "**Abated Prior Tax Assessment**" and look like this:

CODE	EXPLANATION OF TRANSACTION	CYCLE	DATE	AMMOUNT
150	Tax Return Filed #####-###-#####-#	########	04-28-2025	$14,490.00
806	W-2 or 1099 withholding		04-15-2025	$13,548.00
610	Payment with return		04-08-2025	-$942.00
971	Amended return filed of claim Forwarded for processing		06-03-2025	$0.00
977	Amended return filed #####-###-#####-#		06-04-2025	$0.00
291	Abated Prior Tax Assessment	########	09-12-2025	-$1,000.00

From this portion of an Account Transcript, the correct value for the FAFSA Tax Paid questions would be **$13,490** ($14,490.00 – $1,000.00).

NOTE: The wording and code numbers change frequently. Code 291, for example, has appeared as "Reduced or removed prior tax" and "Prior Tax Abated".

Does the IRS Publish a List of Codes that Appear on the Account Transcript?

Yes. Search for "IRS Section 8A Master File Codes" for the most recent version (remembering that you may be looking at a transcript that was produced before this document was last updated, so the code text may be different). I cannot provide a direct link as this document does not occupy a static place on the IRS's website.

How Do I Determine the Correct Values for FAFSA Tax Items that Do Not Appear on Account Transcripts?

Unfortunately, you may not be able to determine the values of any FAFSA tax items other than the AGI and Income Tax Paid from the Account Transcript. Form 1040-X and all supporting documents, and new or changed forms filed with it, is a better (and easier) document to use.

If you have to collect the Account Transcript, either because the contributor did not save a copy of Form 1040-X, or because the IRS made the change to the tax return, you should glean what you can from the Account Transcript and note in the file why you were unable to do a complete review.

Are There Any Other Documents That Might be Helpful?

When the IRS makes changes to a tax return, it sends the taxpayer a notification in the Form of a "CP" (*Computer Paragraph*) letter. Collecting the CP letter may help you understand more clearly what the IRS identified as incorrect and if tax data other than AGI and Income Tax Paid were changed.

Sample CP letters can be found here.

What About Collecting a Form 1040 Showing the Tax Information that Went into a Form 1040-X.

This would be the ideal document to collect to review FAFSA data after a contributor has amended their tax return. Here are a few things to remember if you do request this document:

- This document is not acceptable for V1 or V5 verification and does not satisfy the documentation requirements if the student is selected for V1 or V5 verification. Once you receive a signed Form 1040-X as filed, which is a valid document for V1 or V5 verification, you must move forward with verification. You are not permitted to delay awarding or disbursement of Title IV funds if you have all the documents you are required to collect in the absence of suspected conflicting information or addressing a professional judgment request.

- While all tax software products can produce a version of an amended tax return on Form 1040 and the traditional forms and schedules, the tax software may not indicate that the Form 1040 and other forms and schedules are from an amended tax return. The FAFSA contributor will need to manually annotate the documents to indicate their source.

- The FAFSA is, of course, the **Free** Application for Federal Student Aid. When reviewing an applicant's eligibility for federal financial aid, you are not permitted to require any tax related documentation that would force a FAFSA contributor to pay for that documentation.

  There are some tax preparers who won't provide a Form 1040 based version of a Form 1040-X without a fee. If your FAFSA contributor tells you that they cannot get a Form 1040 of their amended return without paying for it, you must waive any requirement you have established for this form. Failing to waive the requirement would mean you are holding up the processing of a FAFSA because you are waiting for a document you are not permitted to require.

Appendix 1 – Obtaining Tax Transcripts

How Do I Request a Tax Return Transcript?

There are four ways to obtain a copy of your tax return transcript. The quickest way is to use the IRS's online *Get Transcript* tool, which allows taxpayers to download their transcripts as protected pdf files in real time. Before this tool can be accessed, however, a taxpayer must create an ID.me account (see next question), which can take some time and is complicated.

Taxpayers can also request transcripts in these ways without setting up an ID.me account:

- Completing and mailing in a paper IRS Form 4506-T-EZ (for a tax return transcript) or IRS Form 4506-T (for the tax return transcript and other available transcripts).
- Using the online *Get Transcript by Mail* tool that is similar to completing Form 4506-T but does not require mailing in the paper form.
- Requesting a transcript by calling the automated phone transcript service at 800-908-9946. This is equivalent to filling out Form 4506-T verbally.

How Do I Set Up an ID.me Account So That I Can Get a PDF Version of My Transcript?

The Federal Government partners with ID.me to allow citizens to access their records at many federal agencies, including the Social Security Administration, Veteran's Administration, Treasury Direct, and the IRS. If a person has set up ID.me with any federal agency, the same ID will work for the other federal agencies.

Individuals who do not already have an ID.me account can create one through the IRS's website, starting here. The process involves an identity verification step that can be done online using a self-service matching process where the individual uses their phone or computer camera to share their face and a valid government ID in the same frame, or through a live video call with an ID.me representative.

What Transcripts are Available and How Might Each be Useful to a Financial Aid Administrator?

The IRS offers four transcripts and a *Verification of Non-filing Letter*.

- The **tax return transcript (TRT)** is valid for V1 and V5 verification of FAFSA Tax Data and contains all of the income data on a FAFSA that needs to be verified. The tax return transcript contains data from the tax return as filed but may include changes made by the IRS during the processing of the original return. These changes can include corrections to math or rounding errors, changes to incorrectly claimed deductions or credits, and corrections of other errors that the IRS may discover by crosschecking the tax return as filed against other information it may have in its records (prior year tax returns, W-2s and other income statements, etc.)

  If the IRS changes a data element in the tax return transcript, the changed value will be indicated by the phrase "per computer" and is the correct value to use to correct data reported in the FAFSA.

  FAAs are required to use the tax return transcript as their verification document if the FA-DDX did not transfer data into the FAFSA, and the contributor does not have a copy of the tax return filed with the IRS.

  Important Note: Data that was transferred directly from the IRS into the FAFSA using the FA-DDX is considered the most accurate data available and should be used even if the tax return transcript shows a different value. The FA-DDX does pull in "per computer" amounts when they are available. If there is FTI in the ISIR, you should not correct it based on data in a tax return transcript.

- The **Wage and Income Transcript** provides data from forms sent to the taxpayer (and the IRS) that document the various types of income the taxpayer received during the year. Summaries of Forms W-2, 5498, 1098-T, and various 1099s and K-1s, among other forms will appear here.

  The Wage and Income Transcript can be collected if the FAA needs a contributor's W-2s when they are required but the contributor is unable to provide W-2s. A contributor's W-2s are required when an applicant has been selected for V1 or V5 verification and any of the following unusual situations exist:

  - The contributor filed a tax return using the married-filing-jointly status but only one of the taxpayers on the jointly filed return is required to contribute to the FAFSA. In this case, the W-2s of the FAFSA contributor are required for verification. The non-contributor's W-2s are not required.
  - If you are concerned that you have not received all of the W-2s from the FAFSA contributor, ask them to obtain their wage and income transcript from the IRS. All issued W-2s will be reflected there.
  - The contributor had not filed their tax return for the base year when the FAA requested it, and is able to provide documentation that the IRS has extended their filing deadline beyond the October 15 extension deadline.
  - The contributor did not keep a copy of their tax return as filed with the IRS, and the IRS told the contributor that they cannot find their tax return and/or is unable to produce a tax return transcript for them.
  - The contributor did not and is not required to file a tax return.

  The Wage and Income Transcript may be useful to resolve conflicting information related to the Income Earned from Work question if the FAA suspects that the Income Earned from Work values in the FAFSA are incorrect or the Income Earned from Work in the tax return has not been fully reported.

- The **Account Transcript** provides the taxpayer with a running set of transactions used to calculate their current outstanding tax bill, or outstanding refund, for the year. Its primary purpose is to track each year's tax payments and liabilities.

  If a taxpayer files an amended return (Form 1040-X) or the IRS makes a change to the taxpayer's tax record for the tax year, the Account Transcript will contain four data elements from the changed return: Exemptions, Filing Status, Adjusted Gross Income, and Taxable Income.

- The **Record of Account Transcript** is a combination of the tax return transcript and the account transcript. The tax return transcript component of the record of account transcript is identical to the free-standing tax return transcript and will not reflect any changes made to the return after the return was first processed.

- The **Verification of Non-Filing Letter** is treated as a transcript and can be requested using the transcript request processed mentioned above. It serves as proof that the IRS did not have a tax return on file for the individual for the tax year in question, *on the day the non-filing letter was produced*. Receipt of a Verification of Non-Filing Letter does not mean that the individual will not file a tax return in the future, nor does it mean that the individual is not required to file a tax return. It only means that on the day the letter was produced, the IRS has not processed a tax return for the individual for the tax year in question.

  Prior to the implementation of the FA-DDX in the 2024-2025 aid year, FAAs were required to collect a Verification of Non-Filing Letter from all contributors to a V1 or V5 selected application who reported on the FAFSA that they did not and will not file a tax return, except for dependent students. This requirement was eliminated after the implementation of the FA-DDX for FAFSA contributors who are subject to the IRS's tax authority and is currently only required of contributors to selected applications from the United States territories and foreign countries who did not file a tax return, with the continued exception of dependent students.

Appendix 2 – The Department of Education's 2024 Tax Line Matrix

This table specifying the lines on the tax forms where V1 and V5 FAFSA tax data that must be verified appears can be found in Chapter 4 of the 2026-2027 *Application and Verification Guide*.

The following chart shows the tax form line numbers for the required verification items from IRS Form 1040 (or IRS Form 1040-NR).

Item	2024 IRS Form 1040 (or 1040-NR)
AGI	Line 11
Income earned from work*	Line 1z + Schedule 1: Lines 3 + 6
U.S. income tax paid	Line 24
Untaxed portions of IRA distributions (excluding rollovers)	Lines 4a minus 4b
Untaxed portions of pensions (excluding rollovers)	Lines 5a minus 5b
IRA deductions and payments	Schedule 1: Lines 16 + 20
Tax exempt interest income	Line 2a
Education credits	Line 29 + Schedule 3: Line 3
Foreign income exempt from federal taxation	Schedule 1: Line 8d

*Note: Negative values should be set to zero when calculating Income Earned from Work. For example, if IRS Form 1040, line 1z is $50,000 and Schedule 1, line 3 is -$10,000, the income earned from work value should be $50,000.

Appendix 3 –
2026-27 FAFSA Verification-IRS Tax Return Transcript Matrix

ED has provided a comprehensive document listing the lines on the tax transcript for each FAFSA tax item that is subject to V1 or V5 verification. This document can be found here and is reproduced below. Note: this opens as an Excel file. Your browser may require you to save the document on your computer before you can view it.

This document includes the following important information about using the Tax Return Transcript when reviewing applications:

- Note 3 - An IRS Tax Return Transcript does not include information from an amended tax return.
- Note 4 - *The Per Computer amount must be used for verification even if it is different than what was reported by the tax filer to the IRS*. The *Field Guide* uses this convention.
- Note 5 - *"VERIFIED AMOUNT" - This amount should be ignored for purposes of verification*.
- Note 7 - *The FA-DDX is the first authority in the hierarchy of IRS tax documentation for federal student aid purposes. Other documentation from the IRS, such as applicant-provided tax returns, is secondary to the FA-DDX*.

2026-27 FAFSA Verification-IRS Tax Return Transcript Matrix				
2026-27 FAFSA Information Requiring Verification	**2026-27 FAFSA Q# (Student, Student Spouse, Parent, and Parent Spouse)**	**2026-27 ISIR Field# (Student, Student Spouse, Parent, and Parent Spouse)***	**2024 IRS Tax Return Transcript Item**	**2024 IRS Form/Schedule and Line #**
Adjusted Gross Income	20/28/38/45	Manually entered: 95, 155, 205, 245 FTI: 864, 884, 904, 924	Adjusted Gross Income	IRS Form 1040 (or 1040-NR)—Line 11
Income Earned From Work	20/28/38/45	Manually entered: 89, 149, 199, 239 FTI: 867, 887, 907, 927	[Wages, Salaries, Tips, etc.] + [Business Income or Loss (Schedule C)] + [Farm Income or Loss (Schedule F)]	IRS Form 1040 (or 1040-NR): line 1z + Schedule 1: lines 3 + 6. If a tax form line's value is negative, treat it as zero in your calculation.
Income Tax Paid	20/28/38/45	Manually entered: 96, 156, 206, 246 FTI: 868, 888, 908, 928	Total Tax Liability TP Figures If taxes paid is negative, enter "0" (zero)	IRS Form 1040: line 24. If negative, enter a zero.
Education Credits	20/28/38/45	Manually entered: 99, 158, 209, 248 FTI: 869, 889, 909, 929	Refundable Education Credit + Education Credit	IRS Form 1040 line 29 + Schedule 3: line 3
IRA Deductions and Payments	20/28/38/45	Manually entered: 98, 157, 208, 247 FTI: 871, 891, 911, 931	KEOGH/SEP Contribution Deduction + IRA Deduction Per Computer	IRS Form 1040 Schedule 1: total of lines 16 + 20
Tax Exempt Interest Income	20/28/38/45	Manually entered: 90, 150, 200, 240 FTI: 872, 892, 912, 932	Tax-Exempt Interest	IRS Form 1040: line 2a
Untaxed Portions of IRA Distributions	20/28/38/45	Manually entered: 91, 151, 201, 241 FTI: 870, 890, 910, 930	Total IRA Distributions minus Taxable IRA Distributions. Exclude rollovers.	IRS Form 1040: line 4a minus 4b. If negative, use zero. Exclude rollovers.
Untaxed Portions of Pensions	20/28/38/45	Manually entered: 93, 153, 203, 243 FTI: 873, 893, 913, 933	Total Pensions and Annuities minus Taxable Pension/Annuity Amount. Exclude rollovers.	IRS Form 1040: line 5a minus 5b. If negative, use zero. Exclude rollovers.
Foreign Income Exempt from Federal Taxation	20/28/38/45	Manually entered: 103, 161, 213, 251 FTI: Not received via FA-DDX	Foreign Income Exclusion	IRS Form 1040 Schedule 1: line 8d
Notes				
***ISIRs will contain fields for both financial information that is manually entered, as well as financial information received via the direct data exchange (FA-DDX) with the IRS.** **Manually entered = Financial information that must be entered manually by a contributor.** **Federal Tax Information (FTI) = Financial information that is received directly from the IRS.** **When FTI is transferred to the FAFSA form via the FA-DDX, it is considered verified, while information not transferred from the IRS may be subject to verification.**				
The 2026-27 FAFSA Verification-IRS Tax Return Transcript Matrix is applicable only for U.S. IRS tax return filers (IRS Form 1040, and applicable Schedules) and includes only the tax return items required by the Department to be verified for 2026-27.				
IRS Tax Return Transcript—Shows most line items from a tax filer's original tax return (Form 1040 and applicable Schedules). An IRS Tax Return Transcript does not include information from an amended tax return.				
PER COMPUTER—The Per Computer amount must be used for verification even if it is different than what was reported by the tax filer to the IRS.				
"VERIFIED AMOUNT" - This amount should be ignored for purposes of verification.				
Married Filing Separately—An applicant or an applicant's parent(s) who filed or will file his or her income tax return as "Married Filing Separately" or who is married to someone other than the individual included on a joint tax return must provide separate IRS Tax Return Transcripts for each person whose information is included on the FAFSA form.				
This matrix reflects the FTI provided by the IRS via the FA-DDX. The FA-DDX is the first authority in the hierarchy of IRS tax documentation for federal student aid purposes. Other documents provided by the applicant, including copies of tax returns, are not tax records provided by the IRS and may not match FTI provided by the IRS. Documentation provided by the applicant (including IRS-provided tax transcripts) is secondary to the FA-DDX.				