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From the desk of…

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Are Financial Aid Administrators Really Supposed to be IRS Auditors? An Update.

This discussion applies solely to Title IV aid. The information provided may not be applicable to your institutional or state aid programs.

Happy New Year! I hope you were able to enjoy the end-of-year holidays and celebrations and are looking forward to an exciting 2025.

I spent some of the “down time” over these past few weeks catching up on electronic announcements and updating my training materials. I have to update both my 2025-2026 (current) training materials with the information from the recently released 2025-2026 *Application and Verification Guide* and am getting ready to start updating them for the 2026-2027 cycle, which for me begins in September 2025. During this review I discovered that Federal Student Aid (FSA) gave us all a nice end-of-year present at the FSA Training Conference in early December – a gift that I missed until now. But please read further, as it’s a gift that comes with risk.

If you’ve seen my *FM Verification and Conflicting Information* training, you know that I’ve wrestled with a question you may have as well: is the purpose of the conflicting information regulations only to ensure that a student’s Title IV aid eligibility is correct, or does it include making sure that they and other FAFSA contributors have paid the correct amount of income tax to the Internal Revenue Service (IRS). Aid administrators (FAAs) may not be required to be tax experts, but in reality, because FAAs are obligated to understand when a person is required to file a tax return and what the correct filing status is for a person, they are required to be, let’s call it, expert adjacent in these two areas. They must have a reasonable understanding of these two tax issues, the ability to research situations that are atypical, and critically review the responses contributors provide when asked if their non-filing status, or filing status, is correct or not. In some ways FAAs are un-deputized IRS lay-auditors. They identify potentially incorrect tax filings (or missing filings) that the IRS would be unlikely to address because the tax differentials would be so small.

I have believed for years that the purpose of resolving conflicting information is to make sure that the student’s eligibility for Title IV aid is correct, and not to ensure they have paid the correct amount to the IRS. Key sentences discussing the concept of conflicting information in the *Application and Verification Guide (AVG)* include “[b]ecause conflicting data often involve such [tax] information, FAAs must have a fundamental understanding of **relevant tax issues that can impact the need analysis**” and “a school must have an adequate internal system to identify conflicting information, regardless of the source and regardless of whether the student is selected for verification, **that would affect a student’s eligibility**….” The highlights in these phrases are mine.

Note that in each of these sentences, the defining phrase qualifies that conflicting information applies when the incorrect information may prevent the institution from determining the student’s aid eligibility accurately. Conversely, this might suggest that if the school can be confident that the student’s aid eligibility is correct even without “resolving” the conflicting information, maybe the school does not need to take any action.

For example, I've argued that if we are reviewing a file and determine that a dependent student should have filed a tax return even though they reported that they did not one, we do not need to hold off on processing their FAFSA if the income they earned is low enough that it won't change the Student Contribution from Income (SCI) or the Student Aid Index (SAI). For example, in 2024-2025, a dependent student's SCI would be set to –1,500 if they or the IRS reported that they had not filed a 2022 tax return. For dependent student tax filers, the calculated SCI would be –1,500 if their only income were self-employment income and their net self-employment income in 2022 was $10,396 or less. Similarly, in 2025-2026, a dependent student's SCI would be set to 0 if they or the IRS reported that they had not filed a 2023 tax return. For dependent student tax filers, the calculated SCI would be 0 if their only income were self-employment income and their net self-employment income in 2023 was $14,714 or less. The values would be different if there were also unearned taxable income or an allowance for parents' negative AAI, but this should give you an idea of how we can have conflicting information (the student should file a tax return) without an impact on aid eligibility. If we were to require the above students to file tax returns and provide us with a signed copy and correct the ISIR to include the tax return data, the student's aid eligibility would not change – and we could confidently predict that in advance of asking them to file a return.

Here's an example. Let's imagine the dependent student was selected for V1 verification, and on their statement of earnings, other income, and sources of support, they reported that they had $8,000 in income as a tutor. This is self-employment income (they did not provide a W-2 and tutoring is not household work that may be covered by an exemption from paying employment taxes), and a person is required to file a tax return if their net-earnings from self-employment is at least $400.00. We don't really know based on the information we have received whether or not this student is required to file a tax return – they may have expenses that reduce their earnings below that $8,000 reported value and even below the filing requirement threshold, but does it matter? Well, since $8,000 is lower than both $10,396f (2024-2025) and $14,714 (2025-2026), *their SCI will not change if they file a tax return*.

So, historically I have maintained that if the reason the student was supposed to file a tax return was that they had, for example. $8,000 of self-employment income, we don't need to hold off on processing their application while we wait for a tax return, because receiving the tax return would not change the SCI or SAI. We can be confident that we had an accurate SAI and could package the correct amount of aid without the tax return. If the purpose of resolving conflicting information is to ensure that the amount of Title IV aid is correct, and not to provide free auditing services for the IRS, we'll have met that purpose even without requiring a tax return be filed.

Now I have also always pointed out that Federal Student Aid (FSA) has not talked about this very frequently. In fact, prior to now, the last time I can recall seeing an FSA official state this was at the 2017 FSA Training Conference during an Open Forum. I posed a question in the first of three open forums (remember those!?! Easily the best part of the in-person FSA conferences!) at that conference, and it was answered in the third. Craig Munier, then an Assistant Director, Policy Liaison and Implementation at FSA, said explicitly that the Department did not expect schools to require students to file a tax return if the income they reported was less than the dependent student Income Protection Allowance (IPA).

But - schools have reported back to me that they were cited in audits and reviews for not collecting tax returns from graduate students who should have filed them, even though the return would not change their eligibility for unsubsidized loans (these schools did not offer need-based federal work-study funds to graduate students). And a couple of schools said the same thing about dependent undergraduates who had not filed a tax return due to low levels of self-employment income. So even though I believed my position was sound, I made it clear to participants in my trainings that it was risky to agree with me, and a school should not forgo requiring non-filers who should file a tax return from doing so, unless they were willing to defend a finding related to this interpretation of the conflicting information regulations.

Now here's FSA's end-of-year gift. FSA published the questions asked and answered during the FSA Training Conference session on verification and conflicting information, and in that document, in two places, stated this: "Generally, it is best practice to correct any conflicting information or errors in a student's application. But you are not required to change information if it does not affect a student's Title IV eligibility."

You can find the Q and A document by going to this web page: https://2024fsatc.us.chime.live/app/module?id=2. You may need to log in (or create credentials) to use this website. Your credentials that allow you access to FSA systems is not required to access the training site – you'll create different credentials for this site if you don't already have them.

That statement seems clear to me. You don't need to update information in the ISIR if you are certain the student's Title IV aid would not change if you did so. Having said that, though, let's acknowledge a few issues. First, this Q and A document, though likely thoroughly vetted, is technically not official guidance. The Department makes it clear that its webinars and related handouts are informational only. Also, no statement to this effect is included in the *Application and Verification Guide* or other formal channel. And, technically, an auditor or reviewer could state something like "true, you did not need to update the ISIR, but nothing in that statement said you did not need to collect the official documentation that you'd need to update the ISIR." And finally, as I mentioned before, schools have been cited for not collecting unfiled tax returns even when the school could prove that the return data would not have changed the Title IV aid outcome.

So how you interpret this statement is up to you (or your school leadership or legal office!) But it is something to consider as you continue to slog through post-FAFSA Simplification processing.

I hope you have found this information thought provoking. Please let me know if you have any questions, and if there are topics you'd like me to talk about in future newsletters or LinkedIn posts!