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From the desk of...

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"Combined AGI" is Coming to the FAFSA. What Does It Mean?

On February 13, 2026, Federal Student Aid (FSA) released a first draft of the 2027-2028 Free Application for Federal Student Aid (FAFSA), inviting interested parties to review and comment during a sixty-day period that ended on April 14, 2026. The draft includes the introduction of two new data elements, which will combine the Adjusted Gross Income (AGI) and Income Tax Paid of contributors who are "dual tax filers" – people who file both a federal tax return and a territory tax return. This change, if implemented, will almost certainly change the V1 Verification experience of applicants who, or whose parents or spouse, live in the United States territories.

Note that to support this change, FSA changed the language in the FAFSA to describe a tax return filed with the IRS as "federal tax return," which it defines as a Form 1040 or Form 1040-NR. This is a helpful change, given that all the territories except Puerto Rico and American Samoa include the "1040" text in the title of the tax form their resident's file, and people in those territories might, therefore, answer that they did or will file a Form 1040 or 1040-NR. Puerto Rico has its own tax Form that is distinct from Form 1040 (Forma 482.0). American Samoa uses Form 390. This is a form modelled after the 2017 Form 1040 (which was completely restructured starting with the 2018 tax year) and is published as a dynamic Excel spreadsheet. If you are a tax wonk like I am, you should check it out here. It's very cool.

This change is clearly designed to address a well-known issue with the application data received from dual tax filers when the Future Act Direct Data Exchange (FA-DDX) matches their IRS record to their FAFSA contributor record. Federal Student Aid (FSA) first brought this issue to the attention of financial aid administrators (FAAs) in GEN-23-118, *Puerto Rico and other U.S. Territories Dual Tax Filers Reporting Income and Tax Information on the 2024-25 FAFSA*. Basically, if a contributor filed both a federal tax return and a territory tax return, and if the FA-DDX imports the Form 1040 tax return into the FAFSA, only the data on the Form 1040 will be available to FAAs as they determine the applicant's eligibility for financial aid. Similarly, if a contributor fills out the paper FAFSA and states that they filed or will file a Form 1040 (now "federal tax return") they are permitted to skip the questions asked of contributors who did and will not file a Form 1040, where they could report that they did or will file a territory tax return. In both cases (FA-DDX and manual reporting of tax data), the presence of Form 1040 means the income and tax information from the territory tax return is not included in the FAFSA income and tax data.

As we will see below, most of the time, a person who files both a federal tax return and a territory tax return will have more income on their territory tax return than their federal return. This issue means that dual tax filers or their children are receiving more financial aid than they are entitled to, even if they complete the FAFSA as instructed.

Why would someone file both a Form 1040 and a territory tax return?
Because the territory tax systems are territorial (sorry – I couldn't resist). In this case, the word "territorial" means that residents of the territories are taxed by the territory only on income earned or obtained within the territory. For example, a resident of Guam who has a job in Guam and collects rent on a rental property that is located in Guam will report all their income to the Guam tax authority on the Guam Form 1040, *Guam Individual Tax Return*. This income does not need to be reported to the IRS on the federal Form 1040 and is not double taxed.

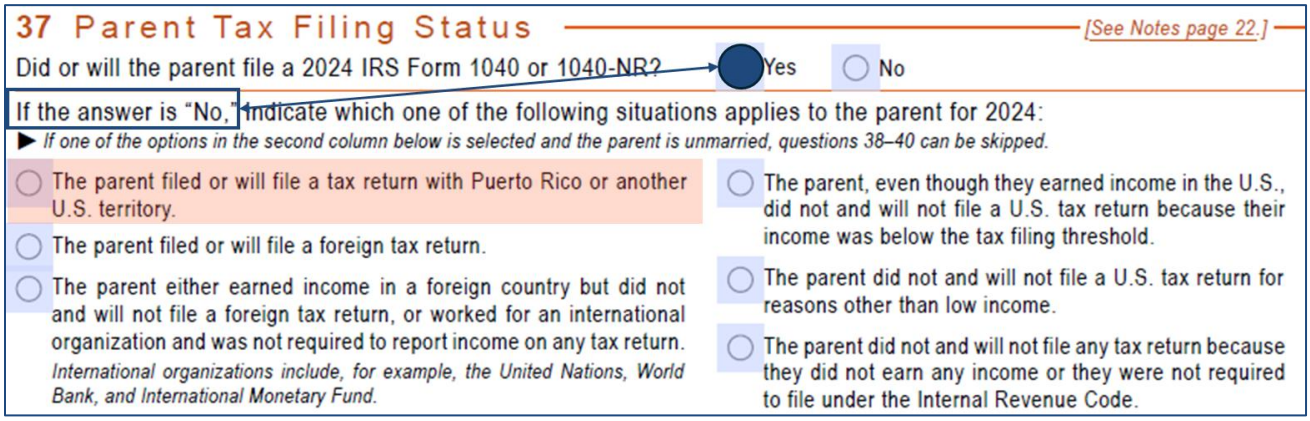
But if this individual's rental property were in the United States, the taxpayer would report their earned income (which was earned in Guam) on their Guam Form 1040, and their rental property income (which was obtained in the United States) a federal Form 1040. If the FA-DDX matches the contributor's FAFSA record to their IRS record, the resultant Federal Tax Information (FTI) dataset would contain only their rental income. The FAA would not know that the earned income existed unless they learned about it from the applicant or in other communications that occur outside of the FAFSA.

What is FSA Trying to Do?
The draft 2027-2028 FAFSA attempts to address this issue through a significant restructuring of two FAFSA questions: the *Tax Filing Status* questions (questions 19, 27, 37, and 44) and the *2025 Tax Return Information* questions (questions 20, 28 ,38, and 45). Note that the *Tax Filing Status* questions cited here are not those that collect information about the taxpayer's filing status (head-of-household, single, etc.). These *Tax Filing Status* questions ask whether the contributor filed a tax return and if they did not, why they did not file a return.

What are the Changes?
If we compare the *Tax Filing Status* questions on the draft 2027-2028 FAFSA and the final 2026-2027 FAFSA, we see that the question has been restructured to allow contributors to report that they filed a territory tax return even if they reported that they filed a Form 1040 or 1040-NR. Let's compare the question flow between the two years (assuming the changes in the 2027-2028 draft are implemented) to see how this difference changes the application data.

In 2026-2027, if a contributor answers that they did or will file a Form 1040, or if the FA-DDX populates the FTI section of the FAFSA with tax data, then they will not be directed to the question that would allow them to report that they filed a territory tax return. The

opportunity to report that they filed a territory tax return is included in the next question in the application flow, which is only presented to contributors who state that they did not file a Form 1040. Contributors using the paper application are instructed to answer this block of questions only if they reported that they did not file a Form 1040. Note in the image below how the question about filing a territory tax return need only be answered if the contributor answers “No” to “Did or will [the contributor] fila a 2024 IRS Form 1040 or 1040-NR?” If they answer “Yes,” they are expected to skip the block of six questions.


37 Parent Tax Filing Status [See Notes page 22.]

Did or will the parent file a 2024 IRS Form 1040 or 1040-NR? Yes No

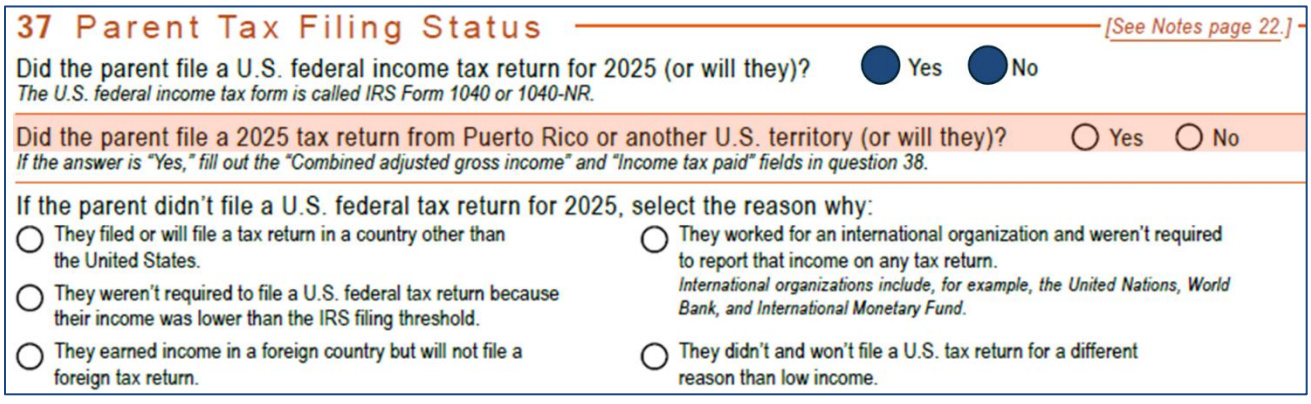
If the answer is “No,” indicate which one of the following situations applies to the parent for 2024:

▶ *If one of the options in the second column below is selected and the parent is unmarried, questions 38–40 can be skipped.*

- The parent filed or will file a tax return with Puerto Rico or another U.S. territory.
- The parent filed or will file a foreign tax return.
- The parent either earned income in a foreign country but did not and will not file a foreign tax return, or worked for an international organization and was not required to report income on any tax return. *International organizations include, for example, the United Nations, World Bank, and International Monetary Fund.*
- The parent, even though they earned income in the U.S., did not and will not file a U.S. tax return because their income was below the tax filing threshold.
- The parent did not and will not file a U.S. tax return for reasons other than low income.
- The parent did not and will not file any tax return because they did not earn any income or they were not required to file under the Internal Revenue Code.

Compare this to the structure of the question in the draft 2027-2028 FAFSA. The territory return question is asked of all contributors, whether they reported that they filed a federal tax return or not. It is no longer below the instruction that asks contributors to explain why they did not file a federal tax return. All contributors will now be asked the territory tax return question.

Only after answering the question about their territory tax return are they given the instruction to answer the next block or questions if they answered “No” to the filing a federal tax return question.


37 Parent Tax Filing Status [See Notes page 22.]

Did the parent file a U.S. federal income tax return for 2025 (or will they)? Yes No

The U.S. federal income tax form is called IRS Form 1040 or 1040-NR.

Did the parent file a 2025 tax return from Puerto Rico or another U.S. territory (or will they)? Yes No

If the answer is “Yes,” fill out the “Combined adjusted gross income” and “Income tax paid” fields in question 38.

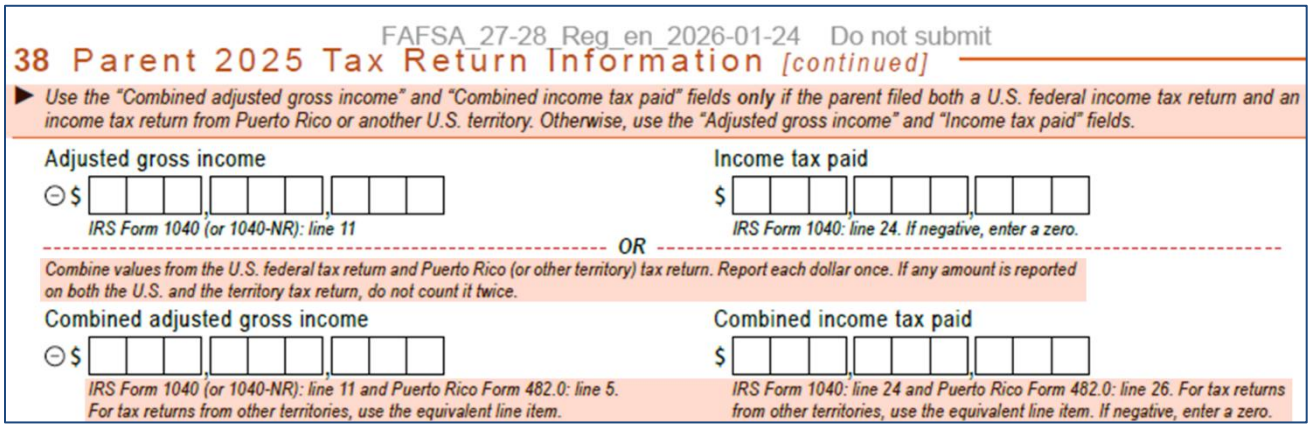
If the parent didn’t file a U.S. federal tax return for 2025, select the reason why:

- They filed or will file a tax return in a country other than the United States.
- They weren’t required to file a U.S. federal tax return because their income was lower than the IRS filing threshold.
- They earned income in a foreign country but will not file a foreign tax return.
- They worked for an international organization and weren’t required to report that income on any tax return. *International organizations include, for example, the United Nations, World Bank, and International Monetary Fund.*
- They didn’t and won’t file a U.S. tax return for a different reason than low income.

This means that for all contributors to a 2027-2028 FAFSA, we will know if they filed

both a federal tax return and a territory tax return.

How will Dual Tax Filers Report the Income from Two Tax Returns on the FAFSA?
FSA has introduced two new fields to FAFSA questions 20, 28 ,38, and 45: “Combined adjusted gross income” and “Combined income tax paid”. In the image below, you can see that people are instructed to use these fields instead of the basic AGI and Tax Paid fields if they filed both a federal and a territory tax return, and are given instructions about where to find the relevant data on the federal and Puerto Rico tax returns


FAFSA_27-28_Reg_en_2026-01-24 Do not submit

38 Parent 2025 Tax Return Information [continued]

▶ Use the “Combined adjusted gross income” and “Combined income tax paid” fields **only** if the parent filed both a U.S. federal income tax return and an income tax return from Puerto Rico or another U.S. territory. Otherwise, use the “Adjusted gross income” and “Income tax paid” fields.

Adjusted gross income
⊖ $
IRS Form 1040 (or 1040-NR): line 11

Income tax paid
$
IRS Form 1040: line 24. If negative, enter a zero.

OR

Combine values from the U.S. federal tax return and Puerto Rico (or other territory) tax return. Report each dollar once. If any amount is reported on both the U.S. and the territory tax return, do not count it twice.

Combined adjusted gross income
⊖ $
IRS Form 1040 (or 1040-NR): line 11 and Puerto Rico Form 482.0: line 5. For tax returns from other territories, use the equivalent line item.

Combined income tax paid
$
IRS Form 1040: line 24 and Puerto Rico Form 482.0: line 26. For tax returns from other territories, use the equivalent line item. If negative, enter a zero.

From this question (remember, this may change – it’s an early draft), we see that

- The “Combined” answers replace the traditional answers for contributors who file both federal and territory tax returns.
- FSA has defined that the AGI from a Puerto Rico tax return comes from Form 482.0, line 5, and the Income Tax Paid from a Puerto Rico tax return comes from Form 482.0, line 26.
- If income appears on both tax returns, contributors are instructed to make sure that each dollar is included only one time in the answer.

I Have Some Thoughts!
I think this is a good start toward an elegant approach to address situations where a contributor has filed a federal Form 1040 but has income that is not reported on that form. It does a good job for dual tax filers from the United States territories. I’m concerned that it might be difficult to implement in the online FAFSA for contributors who have a successful FA-DDX transfer of Form 1040 data into the ISIR. I assume that contributors with successful IRS record-FAFSA matches will be asked, after the successful match, to report their combined AGI and tax paid manually, and others will not be. But how many will pause their work to get their territory and federal tax returns to do the math? And wouldn’t it be better to ask about the AGI and tax from the territory

return only – the FAFSA already has data from the federal Form 1040? This would be easier to explain to contributors and lead to fewer errors.

I think that the Combined questions will be skipped or incorrectly answered and will create a lot of conflicting information that needs to be reviewed. V1 Verification will likely be expanded to include the Combined AGI and Combined Tax Paid fields. I will be talking about this in great detail in next fall's tax training webinars and conference sessions.

But What about Form 1040-NR Filers?

As I mentioned above, I think these Combined fields are an elegant solution to the problem of the exclusion of territory income from the FAFSA when a contributor is a dual tax filer. But the same problem exists, probably to a greater degree, for people who file Form 1040-NR.

I mentioned before that the United States territories have a territorial tax system, and tax their residents only on income earned or received within their borders. Most countries other than the United States also have territorial tax systems. And even the United States' tax system is territorial for nonresident non-citizens.

The NR in 1040-NR stands for "nonresident. It is filed by nonresident non-citizens who earned or received income "effectively connected to the United States". Nonresident noncitizens are not required to report non-US based income to the United States Interna Revenue Service, (IRS), but are required to report US based income on Form 1040-NR. Form 1040-NR collects only United States domestic income. For example, a non-citizen from the nation of Wakanda, who does not spend much time in the United States, may file a tax return to Wakanda reflecting the income that they earn there. Since the Wakandan is not a United States citizen and did not earn this income in the United States, the United States has no claim on it as taxable income, and it does not get reported to the IRS. But, if this Wakandan owned a rental property in the United States, the rents from that property would be reportable on Form 1040-NR, because the rents were collected in the United States. In both 2026-2027 and 2027-2028 (based on the FAFSA draft), the income from the rents would be reported on the FAFSA (or brought into the FAFSA by the FA-DDX) because they are reported on Form 1040-NR, and there would be no place for the foreign income to be added to the rents on the FAFSA.

This issue applies not only to Form 1040-NR filers, but also contributors who file a Form 1040-NR and had foreign income that was not reported on any tax return, and employees of International Organizations who did not report their income on any tax returns.

The model proposed for dual taxpayers from the United States territories would work well to capture the foreign and international organization income of Form 1040-NR filers that was not reported on any tax return, undoing a fundamental issue in the application

process that creates *makes it likely that applicants with foreign contributors are far more likely than applicants with United States based contributors to complete the FAFSA in good faith, never having been asked to report significant amounts of their earned income on the application.*

And What about Form 1040-SS Filers?
Although it is not referenced in the FAFSA instructions (and shouldn't be – it's not an income tax form), I have heard from FAAs that the FA-DDX can import data into the FAFSA from IRS Form 1040-SS. Form 1040-SS is used by residents of the United States territories to calculate a taxpayer's social security, Medicare, self-employment, and other taxes (all taxes collected by the IRS that are not the income tax) owed to the United States that was not collected through wage withholding or another means. It is also used by territory taxpayers to claim the Additional Child Tax Credit (ACTC). It does not have an AGI (or any income fields) on it except for a modified AGI field for those claiming the ACTC), and it does not include income taxes in the total tax field. This tax form does not contain any FAFSA data elements, but it becomes the tax form of record if the FA-DDX pulls it into the FAFSA.

The only real solution to this issue is block the FA-DDX from importing data from Form 1040-SS and to return a "No Return on File" (IRS Response Code 214) even if a 1040-SS was filed.

A Note about Contributors Who File Both a Form 1040 and a Foreign Tax Return
Because the Form 1040 collects worldwide income (filers of Form 1040, other than residents of the territories, report worldwide income on this tax form), it should, if properly filled out, contain income that might also have been reported on a foreign tax return. If that income is tax exempt via the foreign earned income exclusion, it will still be assessed as untaxed income and count as income in the Student Aid Index (SAI) calculation and the Maximum and Minimum Pell Grant eligibility processes. So, we should have all the information we need to assess a student's eligibility for Title IV aid right in Form 1040, even if the contributor also reported income on a foreign tax return.

How Would I Like This Issue to be Resolved?
I did take advantage of the opportunity to comment on the changes in the draft 2027-2028 FAFSA, but due to time constraints, do not think I did a very good job explaining my concerns and proposing alternative language. Here's what I wish I'd shared with FSA.

1) Change the question about filing a federal tax return to a multiple-choice question that allows contributors to report not only if they filed or will file any federal tax return, but which tax return they filed.

   Which U.S. federal income tax return did or will [the contributor] file for 2025?

○ *Form 1040* ○ *Form 1040-NR* ○ *Form 1040-SS* ○ *None of these*

2) Promote the question about filing a foreign tax return the way the question about territory tax returns was promoted – and ask it of every contributor. In other words, require all contributors to answer these three questions, no matter what their answers are to the questions that preceded it:

    a. *Which U.S. federal income tax return did or will [the contributor] file for 2025?*
    ○ *Form 1040* ○ *Form 1040-NR* ○ *Form 1040-SS* ○ *None of these*
    b. *Did [the contributor] file a 2025 tax return from Puerto Rico or another U.S. territory (or will they)?* ○ *Yes* ○ *No*
    c. *Did [the contributor] file a tax return in a country other than the United States (or will they)?*
    ○ *Yes* ○ *No*

3) Change the instruction in the *Tax Return Information* questions to cover all the permutations that can occur when someone files a 1040 series tax return and a non-federal tax return:

    Use the "Combined adjusted gross income" and "Combined income tax paid" fields only if any of these circumstances apply to [the contributor]"

    a. *They filed or will file both a U.S. federal income tax return and an income tax return from Puerto Rico or another U.S. territory.*
    b. *They filed or will file both a U.S. Form 1040-NR and a tax return in a country other than the United States.*
    c. *They filed a U.S. Form 1040-NR and had foreign income that was not reported on any tax return or filed any tax return and had international organization income that was not reported on any tax return.*

    Otherwise, use the "Adjusted gross income" and "Income tax paid" fields. If [the contributor] filed IRS Form 1040-SS, ignore it, and only report information from the territory tax return that was filed.

4) Change the instructions about when to use the "Combined" questions to

    Use the "Combined adjusted gross income" and "Combined income tax paid" fields only if [the contributor] filed both a U.S Form 1040 and an income tax return from Puerto Rico, another U.S. territory, or if [the contributor] filed both a

U.S. Form 1040-NR and a tax return in a country other than the United States. Also use these fields if [the contributor] filed any tax return but also had foreign earned income that was not reported on that tax return, or had international organization income that was not reported on any tax return. Otherwise, use the "Adjusted gross income" and "Income tax paid" fields.

5) Change the instructions about how to use the "Combined" questions to *Combine values all federal, territory, or foreign tax returns filed by [the contributor] in 2025. Also add to the adjusted gross income any income earned that was not reported on any tax return, including income from international organizations that may be tax-exempt in [the contributor's] country of residence. Do not include income on Form 1040-SS if it was filed.*

Since We're Discussing These Questions

One change I would like to see on the FAFSA, that is not currently being considered based on the 2027-2028 draft, is separating out the "will" file option from the main tax questions. Rather than allow people who have not filed their tax return to manually enter estimated income and tax information into the FAFSA, why not block their ability to complete the FAFSA until their tax return has been filed. I'd do this by removing the "or will file" text from the *Tax Filing Status* questions, and add a question like this:

If you have not filed a tax return for 2025 but are required to do so, why have you not yet filed your return?

○ *I have not filed my 2025 tax return or asked the IRS for an extension due to my service in the United States military.*
○ *The IRS has given a blanket extension to all taxpayers in the area where I live or work after a declared disaster.*
○ *Neither of these.*

Contributors who select one of the first two options would be given the option to manually enter estimated data into the FAFSA, as they have not missed their deadline for filing their tax return. But those who select "Neither of these" should get a pop-up that asks them to save their work and return to the FAFSA to complete it only after filing their tax return.

Thank You for Reading This Article to the End!

I hope you found this information interesting and helpful. Please let me know if you have any questions, comments, or believe my interpretation of what is coming for 2027-2028 is incorrect. I'd love to hear from you. Future newsletters will look at other pending changes for the 2027-2028 aid cycle.