

From the desk of...

Robert Weinerman, Director of Training

FSA is Working on the 2027-2028 Application and Verification Guide. Here are Two Changes I'd Like to See.

I've just completed the six Iron Bridge Resources' free spring webinars, and over 1,200 people participated in them. Thank you to everyone who attended, asked great questions, and shared the information with their colleagues.

These webinars looked at the 2027-2028 draft FAFSA and the 2025 Form 1040 and used these to predict changes coming to the 2027-2028 processing cycle. If you participated in these webinars or viewed a recorded version, then you know that the IRS has introduced check boxes on Form 1040, lines 4c and 5c, that will be used to indicate that the untaxed portion of an IRA or pension distribution contains a rollover. This replaces the prior indicator, which was the word "rollover" written onto line 4 or line 5. Since the AVG guidance specifically mentions the old line 4 and line 5 descriptor, this guidance needs to be rewritten.

Since this will have to happen anyway, I thought I'd look at the guidance related to verifying a rollover and related to adding a child born after the FAFSA was filed to the family size and make suggestions about how these can be clarified and cleaned up. If you agree with any of these suggestions and have connections at the Department of Education, please feel free to share them with the Department.

1) Clarify or change the documentation required if a contributor to an applicant's FAFSA reports a non-zero value for an IRA or pension rollover

If you entered the financial aid field after the 2018-2019 academic year, you may not know that prior to that year, tax information that could not be verified with unchanged data from the IRS Data Retrieval Tool could only be verified with a tax return transcript. Tax returns were not acceptable unless there was a specific reason the FAFSA contributor could not obtain a copy of their tax return transcript, i.e. if they filed a foreign or territory tax return.

The documentation requirement for verifying a rollover from the 2018-2019 AVG was this:

Since neither the DRT nor a tax transcript identifies rollovers, you must get documentation from the tax filer. This could be a signed statement with the

rollover amount or a notation by the filer on the tax transcript that includes the word “rollover” beside any applicable item, similar to the instruction the IRS gives for Forms 1040 and 1040A. The annotation must be signed and dated by the filer.

Starting in the middle of 2018-2019, FSA started allowing institutions to collect signed copies of the tax return to be used for verification of tax items on the FAFSA. It was not until 2024-2025 that they updated the rollover documentation guidance to account for tax returns as verification documents. But the change they made is confusing and seems to suggest that some tax returns that are acceptable for V1 verification of other tax items are not acceptable for rollover verification. The change they made is highlighted here, in this quote from the 2024-2025 AVG:

*Since neither a tax transcript nor FTI transferred via the FA-DDX identifies rollovers, you must get documentation from the tax filer. This could be a signed statement with the rollover amount or a notation by the filer on the tax transcript **or return** that includes the word “rollover” beside any applicable item, like the instruction the IRS gives for Form 1040. The annotation must be signed and dated by the filer.*

Note the last sentence in each of these paragraphs: ***[t]he annotation must be signed and dated by the filer.***

Here's the issue: A tax return is valid for verification if it is signed by the taxpayer or has the name and Preparer Taxpayer Identification Number (PTIN) of the person who prepared the tax return on it. In the former case, no date is required. In the latter case, the taxpayer is not required to have signed the return, and no date is required. But to verify the rollover, a tax return requires a signature of the taxpayer and a date, technically positioned next to the number that represents the rollover. So technically, since *the annotation must be signed and dated by the filer*, many documents that are valid for verification of all other FAFSA tax items are not valid for rollover verification, and financial aid administrators (FAAs) are therefore required to collect a signed statement, or second copy of a tax return with the taxpayer's signature and a date, to verify the rollover.

For example, an applicant is selected for V1 verification. Their parents have Individual Taxpayer Identification Numbers (ITINs), so the FA-DDX was unable to match their FAFSA record to their IRS record. Without Federal Tax Information (FTI) in the ISIR, the institution asked for and received a copy of the parents' Form 1040 and applicable schedules. This tax return is acceptable for V1 verification because it has a tax preparer's name and PTIN on it. It is not signed or dated by the taxpayer. If this tax return contains a rollover, the institution must go back to the applicant and ask for a signed statement reporting the value of the rollover, or a second copy of the tax

return that includes the taxpayer's signature and date next to the rollover value. There is no way to know if this two-step requirement was intentional, or an unintended outcome.

Robert's Wish: If a tax return that is valid for verification of all FAFSA tax items, including the rollover value, then FSA should reword the above paragraph to say so. Also, IRS Form 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*, and Form 5498, *IRA Contribution Information*, should be added to the list of documents acceptable for documentation of rollovers. These forms, especially Form 5498, can provide 100% certainty of the value of the rollover. The Form 1040 annotation cannot. Schools use these forms to resolve conflicting information, such as when a person reports having conducted a rollover, but there is no rollover indicator on the tax return. These should be valid for verification as well.

2) Clarify the Guidance Related to Adding a Newborn Child to the FAFSA Family Size

The AVG addresses changes to the applicant's (or applicant's parent's) family size generally and then has a separate section addressing changes to the applicant's (or applicant's parent's) family size due to the birth of a child. The guidance is different, somewhat unclear, and makes it harder to add a newborn child to the family size than to make any other change to the family size. This simply does not make sense to me.

In general, the AVG tells us that (bolded text is from the 2026-2027 AVG):

All applicants selected by the Department or a school for verification of family size must update family size to be correct as of the date of verification unless the update is due to a change in the student's marital status. Applicants selected for verification are not required to document family size in a subsequent verification in the same year if the information has not changed.

But in the section related to the birth of a child that occurs after the FAFSA is submitted, the guidance is subtly different:

If the applicant is selected for verification, you should update the family size to be accurate at the time you complete verification. The newborn can be included in the family size if the child could be claimed as a dependent on the student's (if independent) or parent's (if dependent) U.S. federal tax return. If an update is not allowed under one of these two options, you may choose to exercise professional judgment on a case-by-case basis to add the newborn to the family size if you determine that the student (or contributor) has a special circumstance.

Note that first, the guidance here states that *if the applicant is selected for verification*, then the family size should be accurate at the time verification is completed. But it does not specify which kind of selection – Departmental or institutional, “counts” – as it does for generic changes to family size.

It then goes on to cite that professional judgment can be used if the student was not selected for verification.

This seems to *suggest* that institutional selection for verification of family size cannot be used to add a newborn child into the family size. If institutional selection for verification could be used to add a newborn child into the family size, then there would never be a need to use professional judgment to do so. So, it *appears* that while institutional selection can be used to update changes to the family size for other reasons (marriage of a dependent student’s parents, adoption of a new family member, a grandparent’s moving into the home, etc.), it cannot be used to add a child born into the family after the FAFSA is filed.

Robert’s Wish: While I’d prefer that FAAs be able to use institutional selection to add a newly born family member into the family size, as they can a new stepparent or a grandparent, I’d like the Department to clarify if the difference between newborn children and other family members is intentional or not. And if it is not intentional, make that clearer in the guidance.

Are you confused by any other guidance in the *AVG* or elsewhere that you’d like FSA to update? Or do you agree or disagree with my suggestions above? Please let me know by emailing me at robert@ironbridgeresources.com. I’d love to hear your thoughts.