



# CENTER ON BUSINESS AND POVERTY

## **SIMPLIFYING THE FAFSA** THROUGH **TAX PREPARATION**

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## THE CHALLENGE

As tax information is moved into the FAFSA electronically, we enter a new age.

*\* However, technological solutions are often not as easily implemented as we hope.*



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## BACKGROUND ON FAFSA

Approximately 10 Million FAFSAs are completed in an average year.

*\* \$96 Billion of financial aid delivered through the U.S. Department of Education in 2008*

*\* \$4 Billion in cost of complexities:*

*\$2 Billion to Students*

*\$2 Billion to Colleges*



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## TAX PREPARATION

2.8 Million people had tax forms completed for FREE in 2008.

However, the average low-income tax payer paid \$348 to have their taxes prepared at a large chain.

*\* At \$9/hour... \$348 is 2% of a full-time, annual income*



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## DEPARTMENT OF EDUCATION PROMISE

Starting January 2010...

Students applying for financial aid will be able to *seamlessly* retrieve relevant tax information from the IRS.

...Easier completion of the online FAFSA



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## **OBAMA ADMINISTRATION PROMISE**

The administration will seek statutory authority to remove data and information requirements from the FAFSA and aid calculations if the data is not available from the IRS...



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## OBAMA ADMINISTRATION PROMISE

This would remove 26 questions from the FAFSA.

*\* These questions are often hard to complete and have little impact on awarding aid.*



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## WHAT MIGHT HAPPEN WITH A FAFSA / TAX FORM COMBO?

8 million students, who don't currently apply for aid, might be more likely to do so.

*\* Many of these students are low-income.*

*\* As many as 2.3 million more students might qualify for Pell Grants.*





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## DOES TAX PREPARATION COMBINATION WORK?

WHEN

COMBINED WITH:

ENROLLMENT CHANGE:

Medical Plan	7%	INCREASE
401 (k) Plan	29%	INCREASE
<b>Scholarship Plan</b>	<b>42%</b>	<b>INCREASE</b>

RESEARCH COMPLETED BY HOFFMIRE AND HARMS AT STAPLES. RESEARCH  
PUBLISHED BY FILENE RESEARCH INSTITUTE, 2009, WEBSITE: <http://filene.org/free/taxtime>



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## IMPLICATIONS OF CURRENT TAX CALENDAR...

Because taxes can be filed as late as April 15, the IRS is not able to provide data electronically for the FAFSA until **July**.

Consequences:

1. Less time available to plan for college costs, and
2. Filing FAFSA after the data is available in July would frequently result in ineligibility for state and college aid.



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## IMPLICATIONS OF FAFSA DEADLINES...

There are concerns that, if we rely on the data electronically available from the IRS, the deadline for filing a FAFSA would require using old data (a.k.a. “prior-prior year” data).

*\* Old tax data may not accurately reflect applicants’ current financial need.*

Source: GAO Report, October 2009



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## OTHER CONCERNS...

6% of DEPENDENT applicants and 13% of INDEPENDENT applicants came from households **not** required to file taxes.

*\* What data would be used for their FAFSAs?*

Many people still file taxes on paper.

*\* Locating 2-year old, “prior-prior year” information can be problematic*

Source: GAO Report, October 2009



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## WHAT HAPPENS NEXT?

Students who complete the online FAFSA and enroll in college between January 1 and June 30, 2010 have the option of transferring IRS data into the online FAFSA.

*If it works...* students who apply online for aid between July and December 2010 will be able to transfer IRS data electronically.

Source: GAO Report, October 2009



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## WHAT HAPPENS AFTER THAT?

Between January and June 2011 – when most students are applying for Fall 2011 aid – applicants who complete the online FAFSA will **not** have the option of electronically transferring IRS data.

### Why?

Current law requires 2010 tax information for 2011 enrollment, which..... won't be available until *July, unless the law changes.*



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## COMMENTS AND PREDICTIONS

1. The Department of Education's action plan is much better than what existed before.
2. The education community should listen to the free tax service community.

*\* This stuff is more complicated that most educators think...*

...Just wait until a student from a family with a large S corporation gets a Pell Grant. Which of you wants to explain why a multi-millionaire's unmarried, 21-year old son, who hasn't served in the military, got free aid?



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*\* The GAO report cited in this presentation is available free online at*

<http://www.gao.gov>.