

11/8/2010



2010  
DE-DC-MD  
FALL  
CONFERENCE

WHAT THE HECK DO I DO WITH THIS?  
ANSWERS TO THOSE UNANSWERABLE  
QUESTIONS, PART 2

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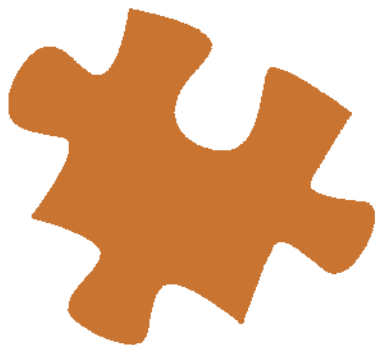


**Touch Verification Issues**  
**Continued from Spring 2010 Conference**

**DE-DC-MD Fall Conference**

**November 7 - 9, 2010**

**10:45 – 11:45**



## **TOUGH VERIFICATION ISSUES**

**“An institution is always expected to resolve conflicting information as soon as the discrepancy is found. In all cases, resolution of the conflicting information must be documented in the student’s file. The only exception is if the student dies during the award year.”**

**-The Application and Verification Guide, 2009-2010**

### **Issues We covered at Spring 2010 Conference:**

- A. ISIR information**
- B. Household Size**
- C. Number in College**
- D. Dependency Status**
- E. Marital Status**
- F. Homeschooling**

### **What We will cover Today:**

- G. First Time Home Buyer Credit**
- H. Unemployment Compensation**
- I. Same-Sex Marriages**
- J. Combat Pay**
- K. Military Pay**
- L. Farm Income**
- M. S-Corporation Income**
- N. Schedule K-1**
- O. Both Parents Filing as “Head of Household”**

## **G. First Time Home Buyer Credit**

1. What is it?

As part of a Presidential Recovery Act, homebuyers who purchased a home in 2008, 2009, or 2010 are able to take a one-time tax credit, ranging from \$1 to \$8,000.

2. Reduces a taxpayer's tax bill or increases the refund, dollar for dollar.

3. The credit is paid fully to eligible taxpayers, even if they owe no tax.

4. Credit shows only on Form 1040 – line 67.

**5. Full amount is considered UNTAXED INCOME on the FAFSA – placed on the line “Other Untaxed Income.”**

6. This is not specifically asked for on the FAFSA for 2010-11 and is not on Draft FAFSA for 2011-12.

### **Notes:**

## H. Unemployment Compensation

1. Beginning with 2010-2011, the first \$2400 of unemployment compensation does not have to be reported on the federal tax return, but does have to be reflected for FAFSA purposes.
2. **If there is any amount on line 19 of 1040 or line 13 of 1040A or line 3 of 1040EZ, we should assume \$2400 was excluded on the tax return and add this amount as “other untaxed income.”**
3. Things to think about:
  - a. Your office should have a policy statement on how to handle this.
  - b. Example:
    1. We will ask for additional documentation if any of the following apply:
      - If occupation says unemployed or other statements in file say unemployed.
      - If “0” is listed as the amount on the tax lines above, we will ask for 1099G – Unemployment Statement.
      - We will add a question to the Verification Worksheet.  
“At any time in 2009 were you, your spouse, or your parents unemployed?”  
“If so, was unemployment compensation received?”

### Notes:

## I. Same Sex Marriages

1. Can Same-Sex Marriage partners file as “Married” on the FAFSA?

**NO!**

2. **Per the Verification Guide: The Defense of Marriage Act (DOMA)**

According to the Defense of Marriage Act (1996), “...the word ‘marriage’ means only a legal union between one man and one woman as husband and wife, and the word ‘spouse’ refers only to a person of the opposite sex who is a husband or a wife.”

Therefore, same-sex unions are not considered marriages for federal purposes, including the FAFSA.

3. Do we include the Partner in the household?

POSSIBLY - if he/she meets the definition of those who can be counted in the household.

4. Do we include the Partner in the number in college if he/she is attending?

POSSIBLY - if the partner can be counted as a member of the household, then YES, he/she can be counted in the number in college.

5. If they filed as “Married Filing Jointly” how do we divide out the income?

For federal tax purposes, they cannot file as “Married Filing Jointly.” They must file as “Unmarried Persons.” So, no need to worry about dividing out the income.

However, if their state recognizes same sex marriages, they could file jointly for state tax purposes.

### Notes:

## **J. Combat Pay**

- 1. Is not to be counted on the FAFSA at all.**
2. It can be either a taxable or un-taxable benefit.
3. If the benefit was taxable, it shows in the Adjusted Gross Income.
  - a. To exclude the amount, enter the dollar figure on the FAFSA in the “income offsets” section (used to be Worksheet C).
4. If the benefit was untaxed, it is not to be included in the untaxed income section of the FAFSA.

### **Notes:**

## **K. Military Pay**

1. Basically, it is broken down into 2 components: Base Pay and Military Allowances.
2. **Base Pay** – the dollar amount earned each month for military service – income from a job. This is taxable money and usually gets reported on the W-2 as wages, salaries, tips, etc., and is included in the adjusted gross income of the tax return.
3. **Military Allowances** – the dollar amount shown for allowances the federal government gives military persons and is totally TAX-FREE (untaxed) under federal law. Has several components:
  - a. BAH: Basic Allowance for Housing (the old term was BAQ: Basic Allowances for Quarters).
    1. Money given to service members to cover the cost of housing for those not living in government-provided housing (on base housing).
    2. Amount varies according to location.
  - b. BAS: Basic Allowance for Subsistence.
    1. Money given to service members to cover the cost of food and cost of living expenses during overseas assignments.
4. **What Gets Counted on the FAFSA – Base Pay and BAS only!**
  - a. **Base Pay – W-2**
  - b. **BAS – gets reported as untaxed income under “Housing, food and other living allowances.”**
  - c. **May need to collect the Leave and Earnings Statement.**

### **Notes:**

## L. Farm Income

**Question:** When land is rented out but the farm is materially operated and lived on by the student's family, how do we report the income?

### 1. Family Farm vs. Investment Farm

- a. Family Farm – is not included as investments on the FAFSA; it is the principal place of residence for the applicant and his/her family.
- b. Investment Farm – a farm owned only for investment purposes; the investor usually does not live on the farm and does not get involved in the day to day operations, but has caretakers and farm workers who do and keep him informed of the status of the farm.

**Answer: For a family farm, if the land is rented out, the rental income was received and will be reported as rental income on one of corresponding Schedules, probably E or F. The income from these Schedules comes over to the Federal 1040 form.**

- a. Schedule E is used to report only certain types of farm rent. Standard farm rental income is usually reported on Schedule F, not Schedule E.
- b. Farmers or landowners who rent out part of their land but do not materially participate in the farming fill out Schedule E.
- c. For timber that is cut and sold – profit must be listed on one of the Schedules.

**Notes:**

## M. S-Corporation Income

**Question:** What do we have to do with S-Corporation Income?

1. What is an S-Corporation – S-Corporation, meaning Single Taxation, is a business or corporation that is set up for tax purposes in a special way so that the corporation itself does not pay any federal income taxes, but instead divides up the profits (or losses) among the shareholders. The S-Corporation files only an informational tax return and sends to each shareholder a statement of the profits earned or losses encountered. The shareholders must then report the income (or loss) on their own individual tax returns.

(As compared to a C Corporation – meaning Double Taxation – the corporation pays taxes on profits and the dividends earned by shareholders are also taxed.)

**Answer:** any profit earned in an S-Corporation should show on the individual's federal 1040. We should have to do nothing else with the income.

2. Remember, in order to not count the business as an asset on the FAFSA, the business must be family-owned and controlled and have 100 or fewer full-time or full-time equivalent employees do not count as an asset. "Family-owned and controlled" means that more than 50% of the business is owned by persons who are directly related or are or were related by marriage (family members do not have to be counted in the household size for this question).
  - a. Some questions that might be asked to help ensure proper reporting:
    1. How much of S-Corporation does the family own?
    2. How many shareholders are there?
    3. If fewer than 51% ownership, must collect asset information for the FAFSA.

The form used to report S-Corporation profit (or losses) is the Schedule K-1.

**Notes:**

## **N. Schedule K-1**

1. What do we have to do with a Schedule K-1?
2. What is it?

### **A U.S. tax form used to report income from partnerships, S – Corporations, and/or trusts.**

3. For example, “if you had an interest in Company XYZ partnership and received \$1,000 of income from the partnership last year, your K-1 would reflect that income and you would use this form to prepare your personal tax return.”
4. There are two versions of Schedule K-1, for partnerships (Form 1065, K-1), and for S-Corporations (Form 1120s-K-1).
5. Schedule K-1 includes several pieces of information which must be included in the correct place on the personal 1040 tax return and on other schedules, including Schedule B and E. Information from Schedule K-1 is included the partner's or shareholder's personal tax return; the K-1 is not filed with the personal return, but is sent to the IRS along with the appropriate business tax form (Form 1065 for a partnership; form 1120S for an S-Corporation).

ANSWER: If we see a Schedule K-1 in the file, we may want to check the following:

- a. Asset information
- b. Ownership information
- c. Certain lines on the Federal 1040 tax return.

## **Notes:**

**Schedule K-1**  
**(Form 1120S)**  
Department of the Treasury  
Internal Revenue Service

**2009**

Final K-1       Amended K-1      OMB No. 1545-0130

For calendar year 2009, or tax  
year beginning \_\_\_\_\_, 2009  
ending \_\_\_\_\_, 20\_\_\_\_

**Shareholder's Share of Income, Deductions, Credits, etc.**      ▶ See back of form and separate instructions.

| <b>Part I</b> Information About the Corporation                           |  | <b>Part III</b> Shareholder's Share of Current Year Income, Deductions, Credits, and Other Items |   |                   |
|---|--|--|---|-------------------|
| <b>A</b> Corporation's employer identification number                     |  | <b>1</b>   | Ordinary business income (loss) <b>13</b> Credits                 |                   |
| <b>B</b> Corporation's name, address, city, state, and ZIP code           |  | <b>2</b>   | Net rental real estate income (loss)                              |                   |
| <b>C</b> IRS Center where corporation filed return                        |  | <b>3</b>   | Other net rental income (loss)                                    |                   |
| <b>Part II</b> Information About the Shareholder                          |  | <b>4</b>   | Interest income   |                   |
| <b>D</b> Shareholder's identifying number                                 |  | <b>5a</b>  | Ordinary dividends  |                   |
| <b>E</b> Shareholder's name, address, city, state, and ZIP code           |  | <b>5b</b>  | Qualified dividends <b>14</b> Foreign transactions                |                   |
| <b>F</b> Shareholder's percentage of stock ownership for tax year _____ % |  | <b>6</b>   | Royalties   |                   |
| For IRS Use Only  |  | <b>7</b>   | Net short-term capital gain (loss)                                |                   |
|   |  | <b>8a</b>  | Net long-term capital gain (loss)                                 |                   |
|   |  | <b>8b</b>  | Collectibles (28%) gain (loss)                                    |                   |
|   |  | <b>8c</b>  | Unrecaptured section 1250 gain                                    |                   |
|   |  | <b>9</b>   | Net section 1231 gain (loss)                                      |                   |
|   |  | <b>10</b>  | Other income (loss) <b>15</b> Alternative minimum tax (AMT) items |                   |
|   |  | <b>11</b>  | Section 179 deduction <b>16</b> Items affecting shareholder basis |                   |
|   |  | <b>12</b>  | Other deductions  |                   |
|   |  |  | <b>17</b>   | Other information |
|   |  |  | * See attached statement for additional information.              |                   |

This list identifies the codes used on Schedule K-1 for all shareholders and provides summarized reporting information for shareholders who file Form 1040. For detailed reporting and filing information, see the separate Shareholder's Instructions for Schedule K-1 and the instructions for your income tax return.

1. **Ordinary business income (loss).** Determine whether the income (loss) is passive or nonpassive and enter on your return as follows:
  - Passive loss *Report on* See the Shareholder's Instructions
  - Passive income Schedule E, line 28, column (g)
  - Nonpassive loss Schedule E, line 28, column (h)
  - Nonpassive income Schedule E, line 28, column (j)
2. **Net rental real estate income (loss)** See the Shareholder's Instructions
3. **Other net rental income (loss)**
  - Net income Schedule E, line 28, column (g)
  - Net loss See the Shareholder's Instructions
4. **Interest income** Form 1040, line 8a
- 5a. **Ordinary dividends** Form 1040, line 9a
- 5b. **Qualified dividends** Form 1040, line 9b
6. **Royalties** Schedule E, line 4
7. **Net short-term capital gain (loss)** Schedule D, line 5, column (f)
- 8a. **Net long-term capital gain (loss)** Schedule D, line 12, column (f)
- 8b. **Collectibles (28%) gain (loss)** 28% Rate Gain Worksheet, line 4 (Schedule D instructions)
- 8c. **Unrecaptured section 1250 gain** See the Shareholder's Instructions
9. **Net section 1231 gain (loss)** See the Shareholder's Instructions
10. **Other income (loss)**
  - Code*
  - A Other portfolio income (loss) See the Shareholder's Instructions
  - B Involuntary conversions See the Shareholder's Instructions
  - C Sec. 1256 contracts & straddles Form 6781, line 1
  - D Mining exploration costs recapture See Pub. 535
  - E Other income (loss) See the Shareholder's Instructions
11. **Section 179 deduction** See the Shareholder's Instructions
12. **Other deductions**
  - A Cash contributions (50%) } See the Shareholder's Instructions
  - B Cash contributions (30%) }
  - C Noncash contributions (50%) }
  - D Noncash contributions (30%) }
  - E Capital gain property to a 50% organization (30%) }
  - F Capital gain property (20%) }
  - G Contributions (100%) }
  - H Investment interest expense Form 4952, line 1
  - I Deductions—royalty income Schedule E, line 18
  - J Section 59(e)(2) expenditures See the Shareholder's Instructions
  - K Deductions—portfolio (2% floor) Schedule A, line 23
  - L Deductions—portfolio (other) Schedule A, line 28
  - M Preproductive period expenses See the Shareholder's Instructions
  - N Commercial revitalization deduction from rental real estate activities See Form 8582 instructions
  - O Reforestation expense deduction See the Shareholder's Instructions
  - P Domestic production activities information See Form 8903 instructions
  - Q Qualified production activities income Form 8903, line 7
  - R Employer's Form W-2 wages Form 8903, line 15
  - S Other deductions See the Shareholder's Instructions
13. **Credits**
  - A Low-income housing credit (section 42(j)(5)) from pre-2008 buildings See the Shareholder's Instructions
  - B Low-income housing credit (other) from pre-2008 buildings See the Shareholder's Instructions
  - C Low-income housing credit (section 42(j)(5)) from post-2007 buildings Form 8586, line 11
  - D Low-income housing credit (other) from post-2007 buildings Form 8586, line 11
  - E Qualified rehabilitation expenditures (rental real estate) } See the Shareholder's Instructions
  - F Other rental real estate credits }
  - G Other rental credits }
  - H Undistributed capital gains credit Form 1040, line 70, box a
  - I Alcohol and cellulosic biofuel fuels credit Form 6478, line 7
  - J Work opportunity credit Form 5884, line 3
  - K Disabled access credit See the Shareholder's Instructions
  - L Empowerment zone and renewal community employment credit Form 8844, line 3

- | <i>Code</i>   | <i>Report on</i>  |
|---|---|
| <b>M</b> Credit for increasing research activities                                      | See the Shareholder's Instructions                                      |
| <b>N</b> Credit for employer social security and Medicare taxes                         | Form 8846, line 5   |
| <b>O</b> Backup withholding   | Form 1040, line 61  |
| <b>P</b> Other credits  | See the Shareholder's Instructions                                      |
| <b>14. Foreign transactions</b>   |   |
| <b>A</b> Name of country or U.S. possession   | } Form 1116, Part I   |
| <b>B</b> Gross income from all sources  |   |
| <b>C</b> Gross income sourced at shareholder level                                      |   |
| <i>Foreign gross income sourced at corporate level</i>                                  |   |
| <b>D</b> Passive category   | } Form 1116, Part I   |
| <b>E</b> General category   |   |
| <b>F</b> Other  |   |
| <i>Deductions allocated and apportioned at shareholder level</i>                        |   |
| <b>G</b> Interest expense   | Form 1116, Part I   |
| <b>H</b> Other  | Form 1116, Part I   |
| <i>Deductions allocated and apportioned at corporate level to foreign source income</i> |   |
| <b>I</b> Passive category   | } Form 1116, Part I   |
| <b>J</b> General category   |   |
| <b>K</b> Other  |   |
| <i>Other information</i>  |   |
| <b>L</b> Total foreign taxes paid   | Form 1116, Part II  |
| <b>M</b> Total foreign taxes accrued  | Form 1116, Part II  |
| <b>N</b> Reduction in taxes available for credit  | Form 1116, line 12  |
| <b>O</b> Foreign trading gross receipts   | Form 8873   |
| <b>P</b> Extraterritorial income exclusion  | Form 8873   |
| <b>Q</b> Other foreign transactions   | See the Shareholder's Instructions                                      |
| <b>15. Alternative minimum tax (AMT) items</b>  |   |
| <b>A</b> Post-1986 depreciation adjustment  | } See the Shareholder's Instructions and the Instructions for Form 6251 |
| <b>B</b> Adjusted gain or loss  |   |
| <b>C</b> Depletion (other than oil & gas)   |   |
| <b>D</b> Oil, gas, & geothermal—gross income  |   |
| <b>E</b> Oil, gas, & geothermal—deductions  |   |
| <b>F</b> Other AMT items  |   |
| <b>16. Items affecting shareholder basis</b>  | Form 1040, line 8b  |
| <b>A</b> Tax-exempt interest income   | } See the Shareholder's Instructions                                    |
| <b>B</b> Other tax-exempt income  |   |
| <b>C</b> Nondeductible expenses   |   |
| <b>D</b> Property distributions   |   |
| <b>E</b> Repayment of loans from shareholders   |   |
| <b>17. Other information</b>  |   |
| <b>A</b> Investment income  | Form 4952, line 4a  |
| <b>B</b> Investment expenses  | Form 4952, line 5   |
| <b>C</b> Qualified rehabilitation expenditures (other than rental real estate)          | See the Shareholder's Instructions                                      |
| <b>D</b> Basis of energy property   | See the Shareholder's Instructions                                      |
| <b>E</b> Recapture of low-income housing credit (section 42(j)(5))                      | Form 8611, line 8   |
| <b>F</b> Recapture of low-income housing credit (other)                                 | Form 8611, line 8   |
| <b>G</b> Recapture of investment credit   | See Form 4255   |
| <b>H</b> Recapture of other credits   | See the Shareholder's Instructions                                      |
| <b>I</b> Look-back interest—completed long-term contracts                               | See Form 8697   |
| <b>J</b> Look-back interest—income forecast method                                      | See Form 8866   |
| <b>K</b> Dispositions of property with section 179 deductions                           | } See the Shareholder's Instructions                                    |
| <b>L</b> Recapture of section 179 deduction   |   |
| <b>M</b> Section 453(l)(3) information  |   |
| <b>N</b> Section 453A(c) information  |   |
| <b>O</b> Section 1260(b) information  |   |
| <b>P</b> Interest allocable to production expenditures                                  |   |
| <b>Q</b> CCF nonqualified withdrawals   |   |
| <b>R</b> Depletion information—oil and gas  |   |
| <b>S</b> Amortization of reforestation costs  |   |
| <b>T</b> Section 108(i) information   |   |
| <b>U</b> Other information  |   |

Schedule K-1  
(Form 8865)

Department of the Treasury  
Internal Revenue Service

2009

For calendar year 2009, or tax  
year beginning \_\_\_\_\_, 2009  
ending \_\_\_\_\_, 20\_\_\_\_\_

Final K-1

Amended K-1

OMB No. 1545-1668

**Partner's Share of Income, Deductions,  
Credits, etc.**

▶ See back of form and separate instructions.

| <b>Part I</b> Information About the Partnership   |                  | <b>Part III</b> Partner's Share of Current Year Income, Deductions, Credits, and Other Items |  |                                     |
|---|------------------|--|--|-------------------------------------|
| <b>A</b> Partnership's employer identification number   |                  | <b>1</b>   | Ordinary business income (loss)              |                                     |
| <b>B</b> Partnership's name, address, city, state, and ZIP code   |                  | <b>2</b>   | Net rental real estate income (loss)         |                                     |
| <b>C</b> Partner's identifying number   |                  | <b>3</b>   | Other net rental income (loss)               |                                     |
| <b>D</b> Partner's name, address, city, state, and ZIP code   |                  | <b>4</b>   | Guaranteed payments                          |                                     |
| <b>E</b> Partner's share of profit, loss, capital, and deductions:<br>(see Partner's Instr. (Form 1065))  | <b>Beginning</b> | <b>Ending</b>  | <b>5</b>                                     |                                     |
|   | Profit %         | %  | Interest income                              |                                     |
|   | Loss %           | %  | <b>6a</b>                                    |                                     |
| Capital %   | %                | Ordinary dividends   | <b>15</b>                                    |                                     |
| Deductions %  | %                | Qualified dividends  | Credits                                      |                                     |
| <b>F</b> Partner's capital account analysis:<br>Beginning capital account . . . . \$ _____<br>Capital contributed during the year . . . \$ _____<br>Current year increase (decrease) . . . \$ _____<br>Withdrawals & distributions . . . . \$ ( _____ )<br>Ending capital account . . . . . \$ _____<br><br><input type="checkbox"/> Tax basis <input type="checkbox"/> GAAP <input type="checkbox"/> Section 704(b) book<br><input type="checkbox"/> Other (explain) |                  | <b>6b</b>  | <b>16</b>                                    |                                     |
|   |                  | <b>7</b>   | Foreign transactions                         |                                     |
|   |                  | <b>8</b>   | Royalties                                    | <b>17</b>                           |
|   |                  | <b>9a</b>  | Net short-term capital gain (loss)           | Alternative minimum tax (AMT) items |
|   | <b>9b</b>        | Net long-term capital gain (loss)  | <b>18</b>                                    |                                     |
|   | <b>9c</b>        | Collectibles (28%) gain (loss)   | Tax-exempt income and nondeductible expenses |                                     |
|   | <b>10</b>        | Unrecaptured section 1250 gain   | <b>19</b>                                    |                                     |
|   | <b>11</b>        | Net section 1231 gain (loss)   | Distributions                                |                                     |
|   | <b>12</b>        | Other income (loss)  | <b>20</b>                                    |                                     |
|   | <b>13</b>        | Section 179 deduction  | Other information                            |                                     |
|   | <b>14</b>        | Other deductions   |  |                                     |
| For IRS Use Only  |                  | Self-employment earnings (loss)  |  |                                     |

\* See attached statement for additional information.

This list identifies the codes used on Schedule K-1 for partners and provides summarized reporting information for partners who file Form 1040. For detailed reporting and filing information, see the Partner's Instructions for Schedule K-1 (Form 1065) and the instructions for your income tax return.

|   | Code  | Report on |
|---|---|-----------|
| <b>1. Ordinary business income (loss)</b> Determine whether the income (loss) is passive or nonpassive and enter on your return as follows:           |   |           |
|   | <i>Report on</i>  |           |
| Passive loss  | See Partner's Instr. (Form 1065)                                    |           |
| Passive income  | Schedule E, line 28, column (g)                                     |           |
| Nonpassive loss   | Schedule E, line 28, column (h)                                     |           |
| Nonpassive income   | Schedule E, line 28, column (j)                                     |           |
| <b>2. Net rental real estate income (loss)</b>  | See Partner's Instr. (Form 1065)                                    |           |
| <b>3. Other net rental income (loss)</b>  |   |           |
| Net income  | Schedule E, line 28, column (g)                                     |           |
| Net loss  | See Partner's Instr. (Form 1065)                                    |           |
| <b>4. Guaranteed payments</b>   | Schedule E, line 28, column (j)                                     |           |
| <b>5. Interest income</b>   | Form 1040, line 8a  |           |
| <b>6a. Ordinary dividends</b>   | Form 1040, line 8a  |           |
| <b>6b. Qualified dividends</b>  | Form 1040, line 9b  |           |
| <b>7. Royalties</b>   | Schedule E, line 4  |           |
| <b>8. Net short-term capital gain (loss)</b>  | Schedule D, line 5, column (f)                                      |           |
| <b>9a. Net long-term capital gain (loss)</b>  | Schedule D, line 12, column (f)                                     |           |
| <b>9b. Collectible (28%) gain (loss)</b>  | 28% Rate Gain Worksheet, line 4 (Schedule D instructions)           |           |
| <b>9c. Unrecaptured section 1250 gain</b>   | See Partner's Instr. (Form 1065)                                    |           |
| <b>10. Net section 1231 gain (loss)</b>   | See Partner's Instr. (Form 1065)                                    |           |
| <b>11. Other income (loss)</b>  |   |           |
| Code  |   |           |
| <b>A</b> Other portfolio income (loss)  | See Partner's Instr. (Form 1065)                                    |           |
| <b>B</b> Involuntary conversions  | See Partner's Instr. (Form 1065)                                    |           |
| <b>C</b> Sec. 1256 contracts & straddles  | Form 6781, line 1   |           |
| <b>D</b> Mining exploration costs recapture   | See Pub. 535  |           |
| <b>E</b> Cancellation of debt   | Form 1040, line 21 or Form 982                                      |           |
| <b>F</b> Other income (loss)  | See Partner's Instr. (Form 1065)                                    |           |
| <b>12. Section 179 deduction</b>  | See Partner's Instr. (Form 1065)                                    |           |
| <b>13. Other deductions</b>   |   |           |
| <b>A</b> Cash contributions (50%)   | See Partner's Instr. (Form 1065)                                    |           |
| <b>B</b> Cash contributions (30%)   |   |           |
| <b>C</b> Noncash contributions (50%)  |   |           |
| <b>D</b> Noncash contributions (30%)  |   |           |
| <b>E</b> Capital gain property to a 50% organization (30%)  |   |           |
| <b>F</b> Capital gain property (20%)  |   |           |
| <b>G</b> Contributions (100%)   |   |           |
| <b>H</b> Investment interest expense  | Form 4952, line 1   |           |
| <b>I</b> Deductions—royalty income  | Schedule E, line 18   |           |
| <b>J</b> Section 59(a)(2) expenditures  | See Partner's Instr. (Form 1065)                                    |           |
| <b>K</b> Deductions—portfolio (2% floor)  | Schedule A, line 23   |           |
| <b>L</b> Deductions—portfolio (other)   | Schedule A, line 28   |           |
| <b>M</b> Amounts paid for medical insurance   | Schedule A, line 1 or Form 1040, line 29                            |           |
| <b>N</b> Educational assistance benefits  | See Partner's Instr. (Form 1065)                                    |           |
| <b>O</b> Dependent care benefits  | Form 2441, line 14  |           |
| <b>P</b> Preproductive period expenses  | See Partner's Instr. (Form 1065)                                    |           |
| <b>Q</b> Commercial revitalization deduction from rental real estate activities   | See Form 8582 instructions  |           |
| <b>R</b> Pensions and IRAs  | See Partner's Instr. (Form 1065)                                    |           |
| <b>S</b> Reforestation expense deduction  | See Partner's Instr. (Form 1065)                                    |           |
| <b>T</b> Domestic production activities information   | See Form 8903 instructions  |           |
| <b>U</b> Qualified production activities income   | Form 8903, line 7   |           |
| <b>V</b> Employer's Form W-2 wages  | Form 8903, line 15  |           |
| <b>W</b> Other deductions   | See Partner's Instr. (Form 1065)                                    |           |
| <b>14. Self-employment earnings (loss)</b>  |   |           |
| <b>Note:</b> If you have a section 179 deduction or any partner level deductions, see the Partner's Instr. (Form 1065) before completing Schedule SE. |   |           |
| <b>A</b> Net earnings (loss) from self-employment   | Schedule SE, Section A or B   |           |
| <b>B</b> Gross farming or fishing income  | See Partner's Instr. (Form 1065)                                    |           |
| <b>C</b> Gross non-farm income  | See Partner's Instr. (Form 1065)                                    |           |
| <b>15. Credits</b>  |   |           |
| <b>A</b> Low-income housing credit (section 42(j)(5)) from pre-2008 buildings   | See Partner's Instr. (Form 1065)                                    |           |
| <b>B</b> Low-income housing credit (other) from pre-2008 buildings  |   |           |
| <b>C</b> Low-income housing credit (section 42(j)(5)) from post-2007 buildings  | Form 8586, line 11  |           |
| <b>D</b> Low-income housing credit (other) from post-2007 buildings   | Form 8586, line 11  |           |
| <b>E</b> Qualified rehabilitation expenditures (rental real estate)   | See Partner's Instr. (Form 1065)                                    |           |
| <b>F</b> Other rental real estate credit  |   |           |
| <b>G</b> Other rental credits   |   |           |
| <b>H</b> Undistributed capital gains credit   | Form 1040, line 70; box a   |           |
| <b>I</b> Alcohol and colloidal bicifuel fuels credit  | Form 6478, line 7   |           |
| <b>J</b> Work opportunity credit  | Form 5884, line 3   |           |
| <b>K</b> Disabled access credit   | See Partner's Instr. (Form 1065)                                    |           |
| <b>L</b> Empowerment zone and renewal community employment credit   | Form 8844, line 3   |           |
| <b>M</b> Credit for increasing research activities  | See Partner's Instr. (Form 1065)                                    |           |
| <b>N</b> Credit for employer social security and Medicare taxes   | Form 8846, line 5   |           |
| <b>O</b> Backup withholding   | Form 1040, line 61  |           |
| <b>P</b> Other credits  | See Partner's Instr. (Form 1065)                                    |           |
| <b>16. Foreign transactions</b>   |   |           |
| <b>A</b> Name of country or U.S. possession   | Form 1116, Part I   |           |
| <b>B</b> Gross income from all sources  |   |           |
| <b>C</b> Gross income sourced at partner level  |   |           |
| <i>Foreign gross income sourced at partnership level</i>  |   |           |
| <b>D</b> Passive category   | Form 1116, Part I   |           |
| <b>E</b> General category   |   |           |
| <b>F</b> Other  |   |           |
| <i>Deductions allocated and apportioned at partner level</i>  |   |           |
| <b>G</b> Interest expense   | Form 1116, Part I   |           |
| <b>H</b> Other  | Form 1116, Part I   |           |
| <i>Deductions allocated and apportioned at partnership level to foreign source income</i>   |   |           |
| <b>I</b> Passive category   | Form 1116, Part I   |           |
| <b>J</b> General category   |   |           |
| <b>K</b> Other  |   |           |
| <i>Other information</i>  |   |           |
| <b>L</b> Total foreign taxes paid   | Form 1116, Part II  |           |
| <b>M</b> Total foreign taxes accrued  | Form 1116, Part II  |           |
| <b>N</b> Reduction in taxes available for credit  | Form 1116, line 12  |           |
| <b>O</b> Foreign trading gross receipts   | Form 8873   |           |
| <b>P</b> Extraterritorial income exclusion  | Form 8873   |           |
| <b>Q</b> Other foreign transactions   | See Partner's Instr. (Form 1065)                                    |           |
| <b>17. Alternative minimum tax (AMT) items</b>  |   |           |
| <b>A</b> Post-1986 depreciation adjustment  | See Partner's Instr. (Form 1065) and the Instructions for Form 6251 |           |
| <b>B</b> Adjusted gain or loss  |   |           |
| <b>C</b> Depletion (other than oil & gas)   |   |           |
| <b>D</b> Oil, gas, & geothermal—gross income  |   |           |
| <b>E</b> Oil, gas, & geothermal—deductions  |   |           |
| <b>F</b> Other AMT items  |   |           |
| <b>18. Tax-exempt income and nondeductible expenses</b>   |   |           |
| <b>A</b> Tax-exempt interest income   | Form 1040, line 8b  |           |
| <b>B</b> Other tax-exempt income  | See Partner's Instr. (Form 1065)                                    |           |
| <b>C</b> Nondeductible expenses   | See Partner's Instr. (Form 1065)                                    |           |
| <b>19. Distributions</b>  |   |           |
| <b>A</b> Cash and marketable securities   | See Partner's Instr. (Form 1065)                                    |           |
| <b>B</b> Distributor subject to section 737   |   |           |
| <b>C</b> Other property   |   |           |
| <b>20. Other information</b>  |   |           |
| <b>A</b> Investment income  | Form 4952, line 4a  |           |
| <b>B</b> Investment expenses  | Form 4952, line 5   |           |
| <b>C</b> Fuel tax credit information  | Form 4136   |           |
| <b>D</b> Qualified rehabilitation expenditures (other than rental real estate)  | See Partner's Instr. (Form 1065)                                    |           |
| <b>E</b> Basis of energy property   | See Partner's Instr. (Form 1065)                                    |           |
| <b>F</b> Recapture of low-income housing credit (section 42(j)(5))  | Form 8611, line 8   |           |
| <b>G</b> Recapture of low-income housing credit (other)   | Form 8611, line 8   |           |
| <b>H</b> Recapture of investment credit   | See Form 4255   |           |
| <b>I</b> Recapture of other credits   | See Partner's Instr. (Form 1065)                                    |           |
| <b>J</b> Look-back interest—completed long-term contracts   | See Form 8697   |           |
| <b>K</b> Look-back interest—income forecast method  | See Form 8866   |           |
| <b>L</b> Dispositions of property with section 179 deductions   | See Partner's Instr. (Form 1065)                                    |           |
| <b>M</b> Recapture of section 179 deduction   |   |           |
| <b>N</b> Interest expense for corporate partners  |   |           |
| <b>D</b> Section 453(l)(3) information  |   |           |
| <b>P</b> Section 453A(c) information  |   |           |
| <b>Q</b> Section 1260(b) information  |   |           |
| <b>R</b> Interest allocable to production expenditures  |   |           |
| <b>S</b> CCP nonqualified withdrawals   |   |           |
| <b>T</b> Depletion Information—oil and gas  |   |           |
| <b>U</b> Amortization of reforestation costs  |   |           |
| <b>V</b> Unrelated business taxable income  |   |           |
| <b>W</b> Prorated gain (loss)   |   |           |
| <b>X</b> Section 108(i) information   |   |           |
| <b>Y</b> Other information  |   |           |

## O. Both Parents Filing as “Head of Household”

Question: When can both the husband and wife file as head of household?

Perhaps the one most widely misused and abused! This filing status is for unmarried persons who provide a home for certain other persons.

1. What constitutes filing as “HEAD OF HOUSEHOLD?”
  - a. Unmarried (**legally separated according to your state law under a decree of divorce or separate maintenance**) or **considered unmarried** as of the last day of the tax year, AND
  - b. Have paid more than half the cost of **keeping up a home** for the tax year, AND
  - c. In most cases, **a qualifying person** must have lived with you in the home for more than half the tax year.

**Considered unmarried** – all of the following must be true: the taxpayer filed a separate return; paid more than half the cost of keeping up his/her home for the tax year; his/her spouse did not live in that home during the last 6 months of the tax year (temporarily absent does not count); that home was the main home of his/her child or children (or stepchild or adopted child) for more than half the year or was the main home of his/her foster child for the entire year; and the taxpayer must be able to claim an exemption for the child.

**Keeping up a home** – all the expenses required to maintain a home (rent, mortgage, mortgage interested, real estate taxes, home insurance, repairs, utilities, and food eaten in the home).

**Qualifying person** – has to be one of the following: your unmarried child, grandchild, stepchild, or adopted child; your married child, grandchild, stepchild, or adopted child but the child must be able to be counted as your dependent; your foster child who lives with you in the home; your relative who is your dependent (parent, grandparent, brother, sister, stepfather, stepmother, stepbrother, stepsister, father-in-law, mother-in-law, half brother or sister, brother-in-law, sister-in-law, son or daughter-in-law), or a parent not living with you but you must have paid more than half the cost of keeping up the home that was the parent’s main home for the entire year.

**AND, meet the following 3 tests:**

- **Age test.** The person must be under 19 years of age or a full-time student under 24 years of age. The person also meets the age test if he or she is permanently and totally disabled at any time during the calendar year. (If the person does not meet the age test to be a qualifying child, he or she may meet the requirements to be a qualifying relative.)
- **Residency test.** The person must live with you for more than half the year.
- **Support test.** The person must not have provided more than half of his/her own support.

## **-A live-in boyfriend/girlfriend does not count as a qualifying person.**

### **Examples – House of Household**

1. *Both parents of a dependent child file as head of household, but they are married and live in the same house.* In such a situation, neither parent filed with the correct status and they must file an amended income tax return before aid can be disbursed.
2. *Both of the married parents of a dependent child file as head of household, but they maintain separate households and each has a qualifying person living with them.* This occasionally occurs when the parents each have children from a previous marriage and have not yet had the opportunity to merge their households. For example, they might be maintaining separate households to permit the children to continue at the same secondary school without interruption, or they may work in different states. In such a situation, with appropriate documentation, amended income tax returns will generally not be required.
3. *One parent files as head of household and the other doesn't file an income tax return because their income was below the relevant IRS threshold.* If they are married and living together in the same home, the parent who filed a return was not eligible to file as head of household. This parent would need to file as married filing separate, or the two would need to file as married filing joint. (Note that many of the education tax benefits are not available to taxpayers who file as married filing separate.)
4. *Married couple, husband does not work, wife filed as head of household based on providing over 50% home upkeep.* Since they were married on the last day of the tax year and were not considered unmarried, the correct filing status is married filing joint or married filing separately.
5. *The parents are divorced or have a legal separation, but are living in the same home and both filed as head of household.* Since only one parent can provide more than half the upkeep of the same home, only one of them can file as head of household. Even if the custodial parent is the parent who provide more than half the upkeep, the other parent must file an amended income tax return since the two head of household filing statuses represents conflicting information that has not been resolved. (When a student's parents are divorced, the custodial parent is the parent with whom the student lived the most during the twelve months ending on the FAFSA application date. If the student's parents are still living together, so that the student lived with neither parent more, then it goes by whichever parent provided the student with more support. Often this is the same parent as provided more than half the upkeep of the home.) If the parents were living in separate homes and each had a qualifying person, then they might possibly be able to both file as head of household.
6. *The parents have an informal separation, are living together and one or more of them files as head of household.* The IRS does not consider an informal separation as unmarried. So they cannot file as head of household if they lived together. Moreover, state law does not allow a couple to have an informal separation and to continue to cohabit, so that would be additional conflicting information.

7. *The parents are divorced or legally separated, live apart, and both file as head of household, but there appears to be only one child.* Both parents cannot use the same qualifying person to justify their filing as head of household.
8. *The parents are divorced or legally separated, live apart, and both file as head of household, but the children live with just one of the parents.* The qualifying person must live with the head of household. This is not like exemptions, where a multiple support agreement can be used to trade off exemptions on odd and even years. If there is any question as to which parent a child lived with, the school will often refer to the address on record with the child's secondary school if the child is a high school senior.

**Answer:** It could be possible if parents each had 1 qualifying child and each maintained a primary home. Documentation to verify this situation could get enormous.

**Notes:**

## **OTHER:**

### **A. What is changing with Verification for 2011-12?**

1. Final regulations to be released in November.
2. The number of applicants to verify will go up (all applications flagged would have to be verified; however, the number of items we must verify is going down (would have a variable selection process that corresponds to the most error-prone items for a particular student).
3. Would not have to collect tax returns for students who allowed the data to be transferred from the IRS (won't help us with early verification).
4. All applications with errors would have to be reprocessed, even if the Federal Pell Grant award would not change (not sure if this also includes applicants that are not Pell Grant eligible).
5. Removes the tolerance option.

### **B. What is changing on the 2011-2012 FAFSA?**

1. Q27 – New High School question - have to write in name, city, state of high school where diploma was/will be received.
2. Q31 – asks only if student is interested in FWS. (loan part was removed).
3. Question asking about elementary/secondary school teacher is omitted.
4. Q43a – (income exclusion questions) – adds American Opportunity credit to the list.

**Sources:**

1. 2010-2011 Verification Guide
2. IRS.GOV website
3. Biz.gov website
4. Publication 17