Who moved my AGI?

THE IMPACT OF PUBLIC LAW 115-97 ON FEDERAL STUDENT AID

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VASFAA 2019 Conference

Agenda

- Background & Context
- Who moved my AGI?
- Meet the Schedules: One through Six
- FAFSA & Verification Impact
- Professional judgement Impact
- Extra Taxable Grants and Scholarships
- Potpourri: 529s and Endowments
- Thinking about systems and documents
- Looking ahead
- Questions and discussion

But first…caveats and asterisks

- Your presenter is not a tax professional.
  - Nothing in today's presentation should be considered tax advice.
- Your presenter joins you in eagerly awaiting the actual 2020-21 FAFSA and verification guide.
  - Information in today's presentation may change based on future guidance provided by the Department of Education and/or based on the final 2020-21 FAFSA and FSA Handbook.
- Your presenter is not from the future and will join all of you in experiencing the actual impact of P.L. 115-97 throughout the upcoming cycle.

Background & Context

- An act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018
- Commonly called the Tax Cuts and Jobs Act of 2017
- Passed on party line House/Senate votes in December 2017
- Signed into law 12/22/2017
- Public law 115-97
- Effective 2018 tax year
- 2018 Tax Returns filed Jan – April 2019 will form the basis of 2020-21 FAFSA filing beginning 10/01/2019

Background & Context

- Public Law 115-97 substantially amended the tax code
- Changes to individual income taxes largely effective 2018 and largely expire after 2025
- Changes to tax rates and brackets
- Personal exemptions suspended 2018-25
- Standard deduction doubled and indexed to inflation
- Substantial changes to itemized deductions
- Numerous other changes impacting both individual and corporate income taxes

Who moved my AGI?

Form **1040** Department of the Treasury—Internal Revenue Service (99)
U.S. Individual Income Tax Return 2018 OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing status: ☐ Single ☐ Married filing jointly ☐ Married filing separately ☐ Head of household ☐ Qualifying widow(er)

Your first name and initial | Last name | **Your social security number**

Your standard deduction: ☐ Someone can claim you as a dependent ☐ You were born before January 2, 1954 ☐ You are blind

If joint return, spouse's first name and initial | Last name | **Spouse's social security number**

Spouse standard deduction: ☐ Someone can claim your spouse as a dependent ☐ Spouse was born before January 2, 1954 ☐ Full-year health care coverage or exempt (see inst.)
☐ Spouse is blind ☐ Spouse itemizes on a separate return or you were dual-status alien

Home address (number and street). If you have a P.O. box, see instructions. | Apt. no. | **Presidential Election Campaign** (see inst.) ☐ You ☐ Spouse

City, town or post office, state, and ZIP code. If you have a foreign address, attach Schedule 6. | If more than four dependents, see inst. and ✓ here ▶ ☐

Dependents (see instructions):

(1) First name Last name	(2) Social security number	(3) Relationship to you	(4) ✓ if qualifies for (see inst.): Child tax credit	Credit for other dependents
			☐	☐
			☐	☐
			☐	☐
			☐	☐

Sign Here
Joint return? See instructions. Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature | Date | Your occupation | If the IRS sent you an Identity Protection PIN, enter it here (see inst.)

Spouse's signature. If a joint return, **both** must sign. | Date | Spouse's occupation | If the IRS sent you an Identity Protection PIN, enter it here (see inst.)

Paid Preparer Use Only

Preparer's name | Preparer's signature | PTIN | Firm's EIN | Check if: ☐ 3rd Party Designee ☐ Self-employed

Firm's name ▶ | Phone no.

Firm's address ▶

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2018)

Who moved my AGI?

Form 1040 (2018) Page 2

Attach Form(s) W-2. Also attach Form(s) W-2G and 1099-R if tax was withheld.	1	Wages, salaries, tips, etc. Attach Form(s) W-2		1	
	2a	Tax-exempt interest	2a	b Taxable interest 2b	
	3a	Qualified dividends	3a	b Ordinary dividends 3b	
	4a	IRAs, pensions, and annuities	4a	b Taxable amount 4b	
	5a	Social security benefits	5a	b Taxable amount 5b	
	6	Total income. Add lines 1 through 5. Add any amount from Schedule 1, line 22		6	
	7	Adjusted gross income. If you have no adjustments to income, enter the amount from line 6; otherwise, subtract Schedule 1, line 36, from line 6		7	
Standard Deduction for— • Single or married filing separately, $12,000 • Married filing jointly or Qualifying widow(er), $24,000 • Head of household, $18,000 • If you checked any box under Standard deduction, see instructions.	8	**Standard deduction or itemized deductions** (from Schedule A)		8	
	9	Qualified business income deduction (see instructions)		9	
	10	Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter -0-		10	
	11	a Tax (see inst.) (check if any from: 1 ☐ Form(s) 8814 2 ☐ Form 4972 3 ☐)			
		b **Add** any amount from Schedule 2 and check here ▶ ☐		11	
	12	a Child tax credit/credit for other dependents b **Add** any amount from Schedule 3 and check here ▶ ☐		12	
	13	Subtract line 12 from line 11. If zero or less, enter -0-		13	
	14	Other taxes. Attach Schedule 4		14	
	15	Total tax. Add lines 13 and 14		15	
	16	Federal income tax withheld from Forms W-2 and 1099		16	
	17	Refundable credits: a EIC (see inst.) b Sch. 8812 c Form 8863			
		Add any amount from Schedule 5		17	
	18	Add lines 16 and 17. These are your total payments		18	
Refund	19	If line 18 is more than line 15, subtract line 15 from line 18. This is the amount you **overpaid**		19	
	20a	Amount of line 19 you want **refunded to you.** If Form 8888 is attached, check here ▶ ☐		20a	
Direct deposit? See instructions.	▶ b	Routing number ▶ c Type: ☐ Checking ☐ Savings			
	▶ d	Account number			
	21	Amount of line 19 you want **applied to your 2019 estimated tax** ▶	21		
Amount You Owe	22	**Amount you owe.** Subtract line 18 from line 15. For details on how to pay, see instructions ▶		22	
	23	Estimated tax penalty (see instructions) ▶	23		

Go to *www.irs.gov/Form1040* for instructions and the latest information. Form **1040** (2018)

Meet the Schedules: One, Two, Three, Four, Five and Six

- Shorter 1040 form with fewer questions
- Schedules 1 – 6 fill in the gaps
  - Schedule 1: Additional income and "above the line" deductions
    - Taxable refunds
    - Alimony
    - Business & Farm
    - Capital gains
    - Unemployment and other income
    - Educator expense deduction
    - SEP/SIMPLE/IRA deductions
    - Self employed health insurance and student loan interest deductions

Meet the Schedules: Schedule One

SCHEDULE 1 (Form 1040)
Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

▶ Attach to Form 1040.
▶ Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074
2018
Attachment Sequence No. 01

Name(s) shown on Form 1040 | Your social security number

Additional Income	1–9b	Reserved	1–9b	
	10	Taxable refunds, credits, or offsets of state and local income taxes	10	
	11	Alimony received	11	
	12	Business income or (loss). Attach Schedule C or C-EZ	12	
	13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐	13	
	14	Other gains or (losses). Attach Form 4797	14	
	15a	Reserved	15b	
	16a	Reserved	16b	
	17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	
	18	Farm income or (loss). Attach Schedule F	18	
	19	Unemployment compensation	19	
	20a	Reserved	20b	
	21	Other income. List type and amount ▶	21	
	22	Combine the amounts in the far right column. If you don't have any adjustments to income, enter here and include on Form 1040, line 6. Otherwise, go to line 23	22	
Adjustments to Income	23	Educator expenses	23	
	24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	24	
	25	Health savings account deduction. Attach Form 8889	25	
	26	Moving expenses for members of the Armed Forces. Attach Form 3903	26	
	27	Deductible part of self-employment tax. Attach Schedule SE	27	
	28	Self-employed SEP, SIMPLE, and qualified plans	28	
	29	Self-employed health insurance deduction	29	
	30	Penalty on early withdrawal of savings	30	
	31a	Alimony paid **b** Recipient's SSN ▶	31a	
	32	IRA deduction	32	
	33	Student loan interest deduction	33	
	34	Reserved	34	
	35	Reserved	35	
	36	Add lines 23 through 35	36	

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71479F **Schedule 1 (Form 1040) 2018**

Meet the Schedules: One, Two, Three, Four, Five and Six

- Schedule 2: Alternative Minimum Tax and health insurance advance premium payment adjustment
- Schedule 3: Non-refundable credits:
  - Foreign tax
  - Child and dependent care
  - Education credits
- Schedule 4: Other taxes
  - Self-employment
- Schedule 5: Refundable tax credits and other payments
- Schedule 6: Foreign address and third party designee

Meet the Schedules: Schedule Two

SCHEDULE 2
(Form 1040)

Department of the Treasury
Internal Revenue Service

Tax

▶ Attach to Form 1040.
▶ Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074

2018

Attachment Sequence No. 02

Name(s) shown on Form 1040

Your social security number

Tax	38–44	Reserved	38–44	
	45	Alternative minimum tax. Attach Form 6251	45	
	46	Excess advance premium tax credit repayment. Attach Form 8962	46	
	47	Add the amounts in the far right column. Enter here and include on Form 1040, line 11	47	

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71478U **Schedule 2 (Form 1040) 2018**

FAFSA & Verification Impact

- Eligible to file a 1040A/EZ
- Exemptions
- Income earned from work
- IRA, Pension and Annuity Distributions
- Income taxes paid

FAFSA & Verification Impact

- Eligible to file a 1040A/EZ
  - Primary eligibility gateway to qualify for Simplified Needs/Auto-Zero EFC
- 1040A and 1040EZ no longer exist
  - All filers file form 1040.
- Appears the ED will swap Schedule 1 for 1040A/EZ as gateway
- Draft 2020-21 FAFSA shows question 35/82: Did or will you/your parents file a Schedule 1?
- Schedule 1 not an exact equivalent to 1040A/EZ
  - Unemployment income was allowed on 1040A/EZ but is now on Schl. 1

FAFSA & Verification Impact

- Exemptions have been eliminated
  - Corresponding FAFSA question has been eliminated
  - Exemptions was not a required verification item
    - No requirement that exemptions reconcile to family size
    - Data check used by ED
  - Unofficial reference point for FAAs

FAFSA & Verification Impact

- Income earned from work
  - W-2 Wages captured on core 1040
    - Line 1
  - Business and Farm income moves to Schedule 1
    - Schedule 1 line 12
    - Schedule 1 line 18
  - Draft FASFA questions make no reference to return or schedule numbers
    - "How much did {you} earn from working in 2018"

FAFSA & Verification Impact

- IRA, Pension and Annuity Distributions
  - Previously reported on lines 15a/b and 16a/b
  - 15a/b for IRA
  - 16a/b for Pensions & annuities
  - Now combined on core 1040 line 4a/4b (total/taxable)
- Corresponding FAFSA questions merged
  - Untaxed portion of IRA distributions and pensions, line 4a minus 4b
  - Continue to exclude rollovers

FAFSA & Verification Impact

- Income taxes paid
  - Core income tax paid amount captured on 1040, line 13
  - Excess insurance premium repayment amount lives on Schedule 2, line 46
- Corresponding FAFSA question:
  - IRS Form 1040 line 13 minus Schedule 2 line 46

Professional Judgment Impact

- Standard deduction doubled, fewer filers itemizing
  - 2016: Approximately 30% itemized
  - 2018: Expected that only 10 – 12% will itemize
  - (Tax Policy Center)
- Unreimbursed medical expense exceeding 7.5% of AGI
  - Previous floor was 10%
- Fewer families with unreimbursed medical expenses will itemize
  - Medical expense appeals may rely more on cashed checks, and receipts showing payments

Taxable Grants, Extra Taxable

- P.L. 115-97 simplified the "Kiddie Tax", the tax on children's unearned income
- Children's unearned income was previously taxed at parents marginal tax rate
- PL 115-97 moved tax calculation to the estate and trust tax schedule
- Estate and trust tax rate schedule scales up much faster than marginal tax rate
- Higher tax rate impacting some individuals with taxable grant and scholarship income
- Substantial recent media attention
- Fix has passed House, held up in Senate

Potpourri

- 529 Plan Changes
  - Up to $10,000 of 529 plan distributions may be used for K-12 schools (public or private)
- Endowment income tax
  - 1.4% tax on net investment income
  - Private, non-profit colleges and universities
  - At least 500 students
  - Endowment assets of >$500,000 per student (excluding assets used directly for stated exempt purpose).
  - Only impacting ~25 – 30 institutions
  - $500,000 per student is not indexed to inflation
  - Concern among non-profits about precedent

Thinking about systems and documents

- Where do you reference:
  - 1040 A/EZ
  - Exemptions
  - Specific tax forms and line numbers
  - IRA and Pension Distributions
  - IRA and SEP/SIMPLE deductions
- Student system/programming rules
- Worksheets and forms
- References and instructions for students and staff
- Single tax form allows for more direct instruction

Looking ahead…

- Changes to alimony reporting
  - Divorce degrees executed or modified after 12/31/2018
  - Alimony payments no longer deductible; alimony received no longer taxable
  - No change to alimony for divorce decrees executed on or before 12/31/2018
  - Based on date of execution, alimony will be included in some parents' AGIs and excluded from others
  - How will ED and FAFSA respond?
  - Any impact will be for 2021-22 FAFSA

Looking ahead…

- Many of the changes made by P.L. 115-97 expire after 2025
  - 2026 tax returns will be used when completing the 2028-2029 FAFSA
  - 2028-2029 FAFSA available October 1, 2027

Questions and discussion