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?

 ![1040 tax form](image)
Who moved my AGI?

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

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

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
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”

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