

PROFESSIONAL JUDGMENT TIP SHEET

Topic: Alternate Year Parent Income

What?

Standard Institutional Methodology (IM) and Federal Methodology (FM) uses a family's base year income, which is the total income for the tax period two years prior to the academic year for which aid eligibility is being determined¹. However, for some families, this income may no longer be a reliable proxy for determining the family's ability to pay. In these cases, it may be reasonable to examine the family's financial situation using an alternative to the base year such as recent year, anticipated year, or another specified 12-month period.

Why?

Parental income is the most important factor in determining the family's ability to pay. Therefore, when a family experiences a significant change in income, it may be appropriate to reassess the income used in determining the family's need. Reasons for changes in parent income include, but are not limited to: death of a parent, parents' temporary or permanent disability, parents' retirement, or change in a parents' employment and/or benefits, etc.

How do I...

Collect information?

There is no single way to collect more current financial information from a family. Many aid administrators ask the family to document recent income and provide a monthly expense statement. Expense information can be gathered to confirm or extrapolate the income necessary to support reported monthly expenses. For examples, see accompanying worksheets.

Analyze the information?

It is common practice to review the documentation provided and determine the income that accurately represents the family's current financial situation. Options for determining what income is most appropriate to analyze the family's ability to pay are:

- Continue to use base year, but use professional judgement to adjust a specific component of income
- Use recent year income from the documentation that the family provided
- Calculate an anticipated year income, using the projected income that the family provided and/or your institution's policy for calculating income and taxes paid.

¹ For the CSS Profile, three years of income are reported: base year, recent year, and anticipated year. For example, for a student enrolling in the 2020-21 academic year, the base year is 2018, the most recent year is 2019, and the anticipated year is 2020. Base year income is reported on the FAFSA.

These figures are then entered into the financial aid software, and need analysis is applied according to institutional policy.

Treatment in IM and FM

Similar approaches can be used in both IM and FM. However, the aid administrator should ensure that the data elements used to determine recent/anticipated income is appropriate for each methodology. For example, foreign income is included in IM but excluded in FM.

IM Options Provided by INAS

Your financial aid management system may support these optional behaviors provided by INAS to incorporate alternate year parent income into the IM need analysis:

- The base year income and expenses could be replaced with the alternate values.
- The “Anticipated Year Income” option could be utilized to evaluate anticipated income and allow for recent child support paid and expected private K-12 tuition.
- Override values for Adjusted Gross Income and income allowances can be specified for the base year.

Additional Considerations

Impact on Assets

Consider how using non-base year income may impact asset assessments. For example, changes to total income may alter the capping of the home asset or projection of investment values. Asset allowances such as the Cumulative Educations Savings Allowance may also be impacted by a change in total income.

Future Aid Years

A family may request professional judgment for multiple years. The aid administrator should consider how decisions made in one year may impact future evaluations.

Tax Allowances

The aid administrator should consider if taxes should be recalculated using tax rates more in alignment with the year of income used.

PROFESSIONAL JUDGMENT CASE STUDY

TOPIC: Alternate Year Income

The Smith family has appealed their financial aid award for their daughter Helen. They sent a letter stating that Helen's father lost his job during the recent year due to the fact that the business he worked for closed. With his earnings, overtime, and severance pay, the recent year income was significantly higher than the base year. His only earnings in the anticipated year will be his social security benefits because he is now retired. Mrs. Smith works as a home health aide. Her income fluctuates based on the number of clients she cares for during that particular year.

Helen and her parents provided the following information, supported by recent earnings statements.

Base Year	
Mother's earnings	\$30,000
Father's earnings	\$80,000
Total income	\$110,000
Federal Taxes Paid	\$15,510
Recent Year	
Mother's earnings	\$50,000
Father's earnings	
Actual Wages	\$62,000
Overtime/Severance	\$38,000
Total taxable income	\$150,000
Father's SSB	\$2,000
Total Income	\$152,000
Federal Taxes Paid	\$26,010
Anticipated Year	
Mother's earnings	\$60,000
Father's earnings	\$0
Father's taxable SSB	\$22,950
Total taxable income	\$82,950
Father's untaxed SSB	\$4,050
Total Income	\$87,000
Federal Taxes Paid	\$8,700

As documentation, the family provided both the recent year and anticipated year wage statements and the father's social security annual statements. The family also provided a monthly breakdown of their household expenses.

Decision

The financial aid administrator confirmed that the family can support their monthly expenses on the anticipated year income. The decision was made to use the

anticipated year total income since it most accurately reflects the family's current financial situation and ability to pay.

Treatment in Methodologies

IM treatment

Whether the financial aid administrator is using the "Anticipated Year Income" option or overriding the values for adjusted gross income and income allowances, the standard IM treatment would use the base year tax tables to calculate a tax on the revised adjusted gross income (using the anticipated income calculation as defined by the IM rules).

Alternatively, a financial aid administrator could manually recalculate taxes paid using the recent or anticipated year tax tables. There is minimal change to the family contribution should a financial aid administrator choose to use the corresponding year tax tables. An analysis was done comparing tax rates over three consecutive years using the same income and the impact to the family contribution was negligible.

FM treatment

In FM, the financial aid administrator could utilize professional judgment and revise the adjusted gross income, wages, and taxes paid fields according to their institutional policy.

SAMPLE INCOME/EXPENSE FORM

College Name
Address
City, St. Zip Code
Email address
Phone number(s)

Report of Special Circumstances for 20XX-20XX

Instructions: All applicants should complete the Revised Family Income (Section I), Family Expenses (Section II), and Written Explanation (Section VI). **Please also complete the section(s) relevant to your family's circumstances.** Mail or fax the completed form to the attention of the {inst name} financial aid office. Submit signed copies of parent and student 20XX federal tax returns, including all schedules, attachments, and W-2s with this report if you have not done so in your initial financial aid application. Please be sure to include additional relevant documentation as outlined in each section.

Student Name: _____ School ID Number: _____

What is the nature of your special circumstance (check all that apply)? Please complete the section(s) relevant to your circumstances.

- Change in Family Circumstances Section III
- Increased Cost of Living Section IV
- Change of Income Section V
- Other Section VI (all applicants should complete this section)

SECTION I: Revised Family Income

January 1, 20xx to December 31, 20xx Income Estimate		
	Father/Stepfather	Mother/Stepmother
Income (wage, business) earned from January 1 st to date of occurrence of special circumstance		
Estimated income (wage, business) after the date of special circumstance to December 31 st :		
Total income earned in 20XX (add the amounts listed above together for each parent, respectively)		
Other taxable income parent(s) expects to receive from January 1, 20XX to December 31, 20XX		
Unemployment benefits	\$ _____ per week from _____ (mm/dd/yy) to _____ (mm/dd/yy)	\$ _____ per week from _____ (mm/dd/yy) to _____ (mm/dd/yy)
Interest/Dividend Income		
Severance Payment		
Any other taxable income (<i>please specify</i>)		
Nontaxable income parent(s) expects to receive from January 1, 20XX to December 31, 20XX		
IRA, Keogh and/or SIMPLE payment		
Payments to tax-deferred pension such as 401(K) or 403 (B) (<i>paid directly or withheld from earnings</i>)		
Social Security Benefits		
Child Support Received		
Public Assistance (Welfare, TANF, WIC, etc.)		
Untaxed pension distributions or withdrawals (excluding rollovers)		
Other untaxed income/benefit (such as foreign income or worker's compensation (<i>please specify</i>))		

SECTION II. REPORT FAMILY EXPENSES

1. Housing and Maintenance

(a) Mortgage or rent payment	(1a)	\$	/month
(b) Electricity	(1b)	\$	/month
(c) Gas	(1c)	\$	/month
(d) Water and sewer	(1d)	\$	/month
(e) Telephone	(1e)	\$	/month
(f) Property taxes	(1f)	\$	/month
(g) Homeowner's insurance	(1g)	\$	/month
(h) Household help	(1h)	\$	/month
(i) Home maintenance	(1i)	\$	/month
(j) Other _____	(1j)	\$	/month

2. Family Living Support

(a) Groceries	(2a)	\$	/month
(b) Clothing	(2b)	\$	/month
(c) Laundry & dry cleaning	(2c)	\$	/month
(d) Prescription drugs	(2d)	\$	/month
(e) Child care	(2e)	\$	/month
(f) Dependent care (i.e. grandparents)	(2f)	\$	/month
(g) Education expenses	(2g)	\$	/month
(h) Children's camp expenses	(2h)	\$	/month
(i) Unreimbursed medical/dental expenses	(2i)	\$	/month
(j) Dental insurance	(2j)	\$	/month
(k) Life insurance	(2k)	\$	/month
(l) Other _____	(2l)	\$	/month

3. Transportation

(a) Automobile payments	(3a)	\$	/month
(b) Gasoline	(3b)	\$	/month
(c) Auto insurance	(3c)	\$	/month
(d) Auto maintenance	(3d)	\$	/month
(e) Other _____	(3e)	\$	/month

4. Leisure

(a) Movies and theater	(4a)	\$	/month
(b) Cable TV	(4b)	\$	/month
(c) Books/magazines/newspapers	(4c)	\$	/month
(d) Vacations	(4d)	\$	/month
(e) Restaurants	(4e)	\$	/month
(f) Club memberships	(4f)	\$	/month
(g) Other _____	(4g)	\$	/month

5. Other

(a) Installment loans	(5a)	\$	/month
(b) Credit card debt	(5b)	\$	/month
(c) Investment expenses	(5c)	\$	/month
(d) Accountant's fees	(5d)	\$	/month
(e) Educational debt	(5e)	\$	/month
(f) Other _____	(5f)	\$	/month

TOTAL MONTHLY EXPENSES (Add 1a to 5f) \$ _____ /month

SECTION III: CHANGE IN FAMILY CIRCUMSTANCES

Please select the appropriate option and complete the corresponding section below.

___ Change in Marital Status

___ Death of a Family Member

Change in Marital Status		
Date of separation / divorce (mm/dd/yy):		
	Father/Stepfather	Mother/Stepmother
Please indicate the custodial and non-custodial parents:		
Which parent is submitting this Report of Special Circumstances? (check one):		
Please indicate the number of dependents in each parent's household under the age of 24:		
Please briefly explain the property settlement in the separation / divorce agreement (include property, assets, etc.):		
Are the family members experiencing a change in marital status currently living in two separate households?	Yes ___	No ___

Documents Requested:

- Documentation of second household expenses and lease (if applicable)
- Listing of child support and/or alimony expected to be paid and/or received
- Documentation of property settlement

Death of a Family Member		
Relationship of the deceased family member to the student:		
Date of passing (mm/dd/yy):		
Benefits of surviving dependents and spouse (if applicable)	Total Life Insurance Benefits:	
	Monthly Social Security Benefits:	
	Monthly Veterans Adm. Benefits:	
	Monthly Pension:	
Expenses:	Medical (not reimbursed by insurance):	
	Legal Fees:	
	Other (please specify in Section VI)	
Please briefly describe any assets or other family inheritance:		

Documents Requested:

- Documentation of expenses
- Documentation of benefits (with amounts)
- Documentation of other distributions from inheritance and assets.

SECTION IV: INCREASED COSTS OF LIVING

Please select the appropriate option and complete the corresponding section below. This section includes expenses defined as necessary and/or extraordinary **that are not accounted for in the original financial aid application and are not reimbursed by insurance.**

___ Medical Expenses

___ Dependent Care

___ Other

Medical Expenses

Please list the total cost of one-time medical expenses <u>not covered by insurance</u> (surgery, emergency room visit, etc.):	
Please list any recurring medical expenses <u>not covered by insurance</u> (i.e. prescriptions, regular treatments, etc.):	\$ _____ /month, for _____ months
Did the medical section require an income-earner to take an unpaid leave of absence from work? If so, please complete the Change of Income section below (Section V). Yes No	

Documents Requested:

- *Documentation of medical bills paid.*
- *If there is an ongoing condition, please provide documentation and/ or estimate of treatment costs.*

Dependent Care

Relationship of the dependent family member to the student:	
On what date did your family begin taking care of this family member? (mm/dd/yy)	
How long do you expect to take care of this family member?	
Does this family member live in your household? If not, are you assisting in maintaining two households?	
Approximately how much is spent per month on the care of this family member?	

Documents Requested:

- *Documentation of your support for this dependent family member, which should include specific dollar amounts of expenses involved.*

Other Expenses

Does your Cost of Attendance not adequately reflect your actual living expenses? If so, please provide an explanation of these expenses and their costs in Section VI.
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Documents Requested:

- *Documentation of any other expenses listed in this form.*

SECTION V: CHANGE OF INCOME

What happened? Please select the appropriate option and complete the corresponding section below.

- One-Time Extra Income
- Reduction of Other Income
- Loss of Employment
- Reduction of Salary in Current Position

Which income-earner received the change of income?	Father____ Mother____ Step-Father____ Step-Mother____	
One-Time Extra Income		
Did you report income for the 20XX year that is not an annual source of income? If so, please describe the source of income in Section VI. Please be sure to describe why this income is not a part of your family’s annual earnings. Please include documentation to support your description of this income source.		
Reduction of Other Income		
Did you lose a reported source of other income (non-wage) for the 20XX year? (Examples include the termination or reduction of benefits including social security, child support, or disability) If so, please list the source of income and amount below. Please include any documentation to support your description of this income source.		
Loss of Employment		
On what date did you become unemployed? (mm/dd/yy)		
What were your 20XX gross earnings prior to becoming unemployed?		
Did you regain employment (i.e. find a new job and/or regain your old job)?	Date of Re-Employment:	
	Gross Monthly Salary:	
Please indicate the dollar amounts for the following compensation:	Severance Package:	
	Accrued Sick Leave / Vacation Time	
Do you receive unemployment compensation? Yes____ No____	Date Unemployment Compensation began:	
	Weekly Amount of Compensation:	
	Number of weeks you will be receiving compensation (in total):	
Do you receive any other benefits (workman’s compensation, etc.) due to the loss of employment? Please describe the dollar amount and the nature of these benefits in the space to the right:		
Reduction of Salary in Current Position		
On what date did your reduced salary become effective? (mm/dd/yy)		
What was your monthly salary prior to the reduction?		
What is your current (reduced) monthly salary?		
Is your salary reduction permanent? If not, how many months do you expect to receive your reduced salary?		

Documents Requested:

- *Most recent pay stub for all income-earners in the household*
- *(Loss of Employment Only) - Termination notice or letter of explanation from employer*
- *(Loss of Employment Only) - Severance statement*
- *(Loss of Employment Only) - Copy of unemployment benefits from the Department of Labor*
- *(Loss of Employment Only, if re-employed) - last pay-stub from old position and most recent pay-stub from new position*
- *(Reduction of Salary Only) - Last pay-stub from initial salary*
- *(Reduction of Salary Only) - Most recent pay-stub from new salary*

SECTION VI: WRITTEN EXPLANATION

Use this section to explain in greater detail the specific circumstances that give rise to an appeal. Provide a detailed explanation, including dollar amounts, and attach appropriate documentation to support circumstances and dollar amounts reported. **Attach additional sheet(s) if necessary. Include your name and student ID number on attachments.**

Have you been offered a Federal Loan? If so, have you accepted it? If not, please explain why. *These are intended to lessen the financial burden for students.*

Have you been offered a Federal Work Study Award? If so, have you accepted it? If not, please explain why. *These are intended to lessen the financial burden for students.*

TOTAL OTHER EXPENSE: \$ _____

Please also provide an email address and phone number that you can best be reached at:

Phone number: _____

Email Address: _____

CERTIFICATION:

I/we certify that this is a true and accurate report of my special circumstances. It is being submitted as a supplement to my initial applications for need-based financial aid from {institution name}.

Student's Signature

Date

Parent or Guardian's Signature

Date

Mail or fax completed form to the attention of your financial aid counselor at the

*School name
Address
City, State Zip Code
Other info as appropriate
Fax: (XXX)XXX-XXXX*

Submit signed copies of parent and student 20XX federal tax returns, including all schedules, attachments, and W-2s with this report if you have not already done so as part of your financial aid application.