clothing and school supplies, boats, and appliances) do not count as assets.

- Grandparents who wish to pay for college should pay money directly to the school to avoid increasing parental or student assets by giving money to them outright. Or, if the grandparents wait until the child has graduated, they could pay off the student loans instead.
- Make maximum contributions to retirement funds because these assets are not considered by the need-based formula.
- Buy life insurance policies or tax-deferred annuities because these assets are not considered by the need-based formula.
- The value of bank accounts and investments is based on the day the FAFSA is prepared. Consider paying all bills before filing and before your next deposit to minimize this value.

Consumer Debt

Paying off credit card debt and automobile loans will increase eligibility for financial aid by reducing available cash.

Mortgage Debt

To maximize eligibility for financial aid, reduce cash and other assets by prepaying mortgage debt. In addition, parents could take out a home equity line of credit each year to pay for the student's school expenses. The loan would reduce assets considered by the need-based formula.

Change in Financial Circumstances

A student should contact his or her financial aid office if the student or his or her family has unusual circumstances that should be taken into account in determining financial need. Some examples of unusual circumstances are unusual medical or dental expenses or a large change in income from last year to this year.

Non-Federal Assistance

Information about other non-federal assistance may be available from foundations, religious organizations, community organizations, and civic groups, as well as organizations related to a student's field of interest, such as the American Medical Association or American Bar Association. Check with the parents' employers or unions to see if they award scholarships or have tuition payment plans.

Independent Status

If a student is considered an independent, he or she does not have to include any parental income or assets on the FAFSA application. A student is considered an independent if he or she:

- Gets married before submitting the FAFSA.
- Attains age 24.

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 72.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.

TAX YEAR 2021

College Financial Aid Planning

The Tax Lady Plus

Marlborough Professional Office Park
14404 Old Mill Road, Ste 201, Ofc B
Upper Marlboro, MD 20772

www.thetaxladyplus.online
(301) 246-8813

College Financial Aid Planning

College Financial Aid Planning

Many factors affect eligibility for federal financial aid; therefore, all students should apply for financial aid every year even if they think they do not otherwise qualify.

FAFSA. The Free Application for Federal Student Aid (FAFSA) is the first step in the financial aid process. Students use the FAFSA to apply for federal student aid, such as grants, loans, and work-study.

The FAFSA must be submitted for each year the student wants financial aid.

Income tax return. If you are filing a 2021–2022 FAFSA form, the federal information from your 2019 income tax return is used.

Expected Family Contribution. The questions on the FAFSA are required to calculate the student's Expected Family Contribution (EFC). The EFC measures the student's family's financial strength and is used to determine the student's eligibility for federal student aid. The EFC is split between an expected amount contributed from the student (usually more) and an expected amount being contributed from the parents.

Student Aid Report. A student's EFC will be listed on their Student Aid Report (SAR). The SAR summarizes the information submitted on the student's FAFSA.

Financial need. Financial need is the difference between the EFC and the college's cost of attendance (which can include living expenses), as determined by the college. The college will use the student's EFC to prepare a financial aid package to help meet financial need.

Need analysis formula. To determine financial need, a need analysis formula measures the parents' and student's assets and income. Assets are measured as follows.

- Assets in the student's name are assessed at a maximum rate of 20%, whereas parents' assets are assessed at a maximum rate of 12%.
- Assets of other children are not considered.
- Specific types of property (automobiles, computers, furniture, books, clothing and school supplies, boats, and appliances) do not count as assets.
- Retirement funds and pensions are generally not considered assets.
- Annuities and life insurance policies are generally not considered assets.
- Small businesses are excluded as assets if they are a) owned and controlled more than 50% by the student's close family and b) the business has 100 or fewer employees. However, if the business is owned 50% or less, that portion of the business assets are included as investments. Close family include those directly related to the student's household members and those related by current or former marriage to those people.
- Consumer debt (such as a credit card balance) is not counted against assets and income.
- Only debt secured by property (mortgage on home or business loan for equipment) is counted against assets and income.

Planning Strategies

Income Strategies

- Avoid selling items that will produce a capital gain during the base year (first year of financial aid application) because capital gains are treated like income.
- Avoid taking money out of a retirement fund to pay for educational expenses. If distributions are made, this converts a sheltered asset into an included asset. Therefore, it is more beneficial to spend down cash in a bank account first.
- Reduce parents' income to increase eligibility for financial aid when parents' AGI is close to $50,000. If the parents' AGI is under $50,000, then the family may qualify for the Simplified Needs Test (SNT) which disregards assets when determining the EFC.
- Delay taking money from section 529 college savings plans not owned by the student or parents until the last two years of school. When used, these funds count as money received by the student and impact the EFC.

Asset Strategies

- Avoid saving money in the student's name. Assets should be saved in the parents' name because parents' assets are assessed at a much lower rate for determining need (12% for parent versus 20% for student).
- A section 529 college savings plan saved in the parents' name has minimal impact on financial aid eligibility, and one owned by a grandparent has no impact on the student's eligibility.
- Avoid paying the student a salary from the family business.
- Spending down the student's assets, preferably within the first year, before using any parent asset.
- Put parent assets in the name of another sibling not in college because assets of other children are not considered by the need analysis formula.
- Buy necessary purchases prior to applying for financial aid. Specific types of property (automobiles, computers, furniture, books,