Impact of Changing the Timing of the FAFSA from Prior Year (PY) to Prior Prior Prior Year (PPY)

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Authors of *Filing the FAFSA*

January 25, 2016
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Switch to Prior-Prior-Year Income and Tax Data

- The FAFSA uses income and tax data from a prior tax year, because the data can be “verified” by comparing FAFSA and income tax return data.
- This base year will switch from the prior-year (PY) to prior-prior-year (PPY), starting with the 2017-2018 FAFSA.
- There will be two FAFSAs in 2016, both based on 2015 income and tax data.
  - One FAFSA will start on January 1 (2016-2017 PY).
  - One FAFSA will start on October 1 (2017-2018 PPY).
2016 is a Transition Year from PY to PPY

- PY: The 2016-2017 FAFSA will be filed on or after 1/1/2016 based on 2015 income
- PPY: Instead of filing the 2017-2018 FAFSA on or after 1/1/2017 using income and tax data from 2016 federal income tax returns, families will file the form on or after 10/1/2016 using income and tax data from 2015 federal income tax returns
- Thus, there will be two FAFSAs in 2016, both based on 2015 income data, one starting January 1 and one starting October 1.
# FAFSA Calendar

<table>
<thead>
<tr>
<th>Academic Year</th>
<th>FAFSA Application Season</th>
<th>Base Year for Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>7/1/2015 - 6/30/2016</td>
<td>1/1/2015 - 6/30/2016</td>
<td>2014</td>
</tr>
<tr>
<td>7/1/2016 - 6/30/2017</td>
<td>1/1/2016 - 6/30/2017</td>
<td>2015</td>
</tr>
<tr>
<td><strong>7/1/2017 - 6/30/2018</strong></td>
<td><strong>10/1/2016 - 6/30/2018</strong></td>
<td><strong>2015</strong></td>
</tr>
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Impact of the Switch to Prior-Prior Year (PPY)

- The use of older income and tax data will allow students to file the FAFSA three months earlier, starting on October 1 instead of January 1.
- This change will increase the length of the FAFSA filing season, from 18 months to 21 months (e.g., October 1, 2016 through June 30, 2018).
Impact on Use of the IRS Data Retrieval Tool

- The switch to PPY will allow the use of the IRS Data Retrieval Tool to prefill the FAFSA, starting with the 2017-2018 FAFSA
  - Most applicants will have already filed their PPY federal income tax returns by October 1
  - Automatic 6-month IRS tax extension ends on October 15
- Prefilling the FAFSA will simplify and shorten the form
- Prefilling will also reduce the likelihood that the FAFSA will be selected for verification
  - Data elements that are transferred unmodified from the federal income tax returns are not subject to verification
Impact on Financial Aid Award Letters

- Colleges usually prepare financial aid award letters only for admitted students
  - This is unlikely to change, as it reduces the financial aid office’s workload
  - Accordingly, colleges will continue to start packaging in February, after the admissions office has completed admissions decisions
- The earlier availability of FAFSAs, however, may lead to award letters becoming available in early March instead of late March and early April
  - This will provide families with more time before the May 1 National Candidates Reply Date
- Colleges will be able to provide official award letters for students who apply for early action and early decision, instead of estimates
- Colleges may be able to prepare financial aid packages for continuing students sooner
Impact on Professional Judgment

- Assets will continue to be based on a “snapshot” as of the date the FAFSA is filed.
- Income and tax information from the base year will continue to be treated as a proxy for income and tax information during the award year.
- If income drops in the prior year as compared with the prior-prior year, more families may appeal for more aid.
- But, adjustments will continue to be based on a comparison of income during the base year with an estimate of income during the award year.
- Some families may successfully appeal based on having volatile income, such as self-employed parents (e.g., taxi drivers, pizza shop owners).
- The workload associated with professional judgment will be offset by a reduced workload associated with verification.
Impact on Distribution of Aid

- Currently, students who file the FAFSA in January, February or March tend to get more than twice as much grant funding, on average, as students who file the FAFSA later.
- Low-income students tend to file the FAFSA later or not at all.
- The earlier PPY start date, however, may cause more low-income students to qualify for state and institutional aid.
- The increased use of the IRS Data Retrieval Tool may cause more low-income students to file the FAFSA, since it simplifies the form.
- State governments are unlikely to adopt earlier financial aid deadlines.
Impact on the CSS/Financial Aid PROFILE

- Although the CSS/Financial Aid PROFILE form already had an October 1 start date, it was based on PY data
- The PROFILE will also be switching from PY to PPY
  - The PROFILE will require actual income and tax information from the prior-prior year, an estimate for the prior year and a best-guess projection for the current calendar year
Impact of Transition Year on Aid Planning

- Some families try to realize capital gains prior to the base year, to avoid artificially inflating income.
- In particular, parents of high school juniors may have been selling investments in 2015 to avoid realizing gains in 2016, thinking that they’d be under the old PY system.
- But, now the 2015 gains will count as income for the 2017-2018 FAFSA under the PPY system, reducing eligibility for need-based aid.
- They will need to appeal, arguing that the capital gains are a one-time event that is not reflective of ability to pay during the award year.
Other FAFSA Changes in 2016
Order of Schools on the FAFSA

- Most students list colleges on the FAFSA in preference order, listing their first choice college first
- Previously, some colleges used the order as an indication of the student’s preferences, using it to influence financial aid and admissions decisions
- Starting with the 2016-2017 FAFSA, the U.S. Department of Education no longer shares the list of colleges on the FAFSA with the colleges
- If you are applying for state grants, it is still necessary to list an in-state public college first on the FAFSA
Recent Decreases in the Asset Protection Allowance

- The asset protection allowance for married parent assets, where the older parent in the student’s household is 48 years old (the median age of parents of college-age children), has decreased from $52,400 in 2009-2010 to $30,300 in 2015-2016 and to $18,700 in 2016-2017.
Thank You

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