

## Fact Sheet #1 for War Tax Resistance Counselors

# War Tax Resisters and Student Financial Aid

The financial aid system has become quite federalized, with most colleges and universities requiring students to use the Department of Education's Free Application for Federal Student Aid (FAFSA) as the basis for their aid application. Although the FAFSA form is specifically to judge eligibility for *federal* aid programs including Pell Grants, SEOG Grants, Perkins Loans, Work Study, and the Subsidized Stafford Loan Program, schools and states often use the information provided and the recommendation from the FAFSA office in making decisions on other aid programs.

Because federal grants and loans are part of the federal budget process, Congress has taken an interest in preventing fraud in education grants (small pickin's compared to military contractors fraud!). With the consolidation of the financial aid process, perhaps it is not surprising that the Department of Education (DoE) has looked to the tax system and the IRS to verify the income and financial information provided by the applicant.

This brings us to the complications for individuals and families who for reasons of conscience have refused or would like to refuse to pay for war.

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### Points of concern

- The FAFSA form asks for copies of forms that were “filed” with the IRS or copies of extension forms if the 1040 was not filed, both by the applicant and parents if the applicant is a dependent.
- Required documentation for proof of income includes W-2s, 1099s, and other forms of documentation sent to the IRS.
  - The application allows for the option of “not going to file,” but this is supposed to be backed up with proof that one is not required to file.
- Schools are required to select 30% of the financial aid applications for a verification process that includes backing up income information with a release that allows the IRS to provide tax information to the DoE/FAFSA program. Verification can be random selection, or an officer can flag a particular application to include in the 30%.
- At this point there is not an automatic data match between the DoE and the IRS; Congress still has some concerns about the privacy of taxpayers. However, there has been some testing to see if matching reduces fraud in the system, and it is not impossible that legislation will pass at some point allowing the IRS to freely share taxpayer data with DoE.
- In order to be eligible for *federal* aid, the applicant cannot have a debt with the IRS.
- It does appear that the federal financial aid system is a fairly easy way for the IRS to find nonfilers—especially if financial aid officers are convinced that this is an aspect of their jobs.

### Situations for a war tax resister/ family

- War tax resisting, *nonfiling* parents who are applying for their dependent child or nonfiling individuals have the problem of proving their income to the satisfaction of the financial aid officers. With so much hinging on copies of the 1040 and other tax forms, these applicants need to find ways to prove that their income is at a level below the level required to file a tax return. Some financial aid officers may be easier to talk with than others. They may have more flexibility with college-based scholarships and grants than federal aid programs.
- War tax resisters/families *who file* may run into fewer complications in the application process given the reliance on tax forms. It is not essential that both parents file. Aid officers are seeking proof of the family income on which to base awards.
- An individual war tax resister with a debt to the IRS may or may not find themselves excluded from financial aid. We do not have data to be certain either way on this.
- Each year puts you through the process again. Be aware that one year may be no problem, but the next year the application could end up in the verification process.

### Ideas for a war tax resister applicants

- Be honest about financial information on the FAFSA form or with any financial aid application. While schools are required to randomly verify 30% of applications, financial aid officers can also select any applications they consider questionable for verification.

(continued on reverse)

- If you find yourself headed into an uncomfortable verification process, you can decide not to proceed and try to seek funding outside the federal system.
- In some situations it may be possible to fill out a 1040 form, even if one does not file, and submit it with an application. Read the instructions carefully: does it ask for a form that was filed with the IRS or just for a copy of your 1040 form? NWTRCC suggests that nonfilers fill out a tax form each year to help you understand your income level and have the figures if the IRS comes calling. Forms can be downloaded from [irs.gov](http://irs.gov).
- Low income families/individuals, especially people choosing to live below the taxable level who have not filed, might be asked “how do you live on that amount of income.” Some aid officers seem intent on helping the IRS catch nonfilers while others are more interested in helping low income families. Some families have ended up starting to file (or one parent files) even though no tax is owed. Filing tends to stand out less in the application process.
- With war tax resisting parents, a student could see about claiming financial independence and leaving parents out of the application. Check all the instructions to see if this is possible (the criteria is very narrow).

### **Other issues for student war tax resisters**

- Since 1982 the federal government has required male students between 18 and 25 to be registered with the Selective Service in order to be eligible for federal financial aid. Those inclined toward war tax resistance may also face this dilemma. More information and ideas for seeking financial aid can be found at <http://feat.centeronconscience.org>.
- Individuals and families who do not want to pay for war and who file returns should investigate all education credit options before filing. Credits bring down the taxable income level. See IRS Publication 970 (2005), Tax Benefits for Education, [www.irs.gov/publications/p970](http://www.irs.gov/publications/p970).
- Federal tax legislation states that student aid in the form of grants “is taxable income, if aggregate scholarship amounts exceed tuition and fees (not including room and board), books, supplies, and equipment required...” In other words, if a student’s grant aid is greater than those expenses, the amount exceeding the expenses may be taxable income. Once you graduate, interest paid on a student loan can be deducted as an adjustment to gross income.
- Graduating with a big student loan debt is problematic in many ways. There is pressure to get a good salary to help pay off the debt, thus young war tax resisters can be more vulnerable to IRS collection. Be sure to ask if a loan will be forgiven if you choose work in a particular vocation or location. Consider a symbolic level of war tax resistance as a protest that won’t incur more unreasonable debt.

### **Real-Life Experiences**

2006: *“Our children have often gotten the maximum federal grants and loans that don’t incur interest until after they aren’t in school. It’s been worth the trouble, even though our applications were all selected for verification, probably because we were supporting our family on a below taxable income. Be sure you keep all your records. We sometimes figure our taxes in a couple different ways since income from self-employment allows some flexibility, so we needed to make sure our numbers matched what we reported.”*

2004: *Nonfiling parents apply to two colleges for financial aid for their daughter. One school sends them into the verification process and rejects them for financial aid. The other school, no questions asked, awards the aid they needed. One parent decides to start filing to make the process easier in future years; they are low income and probably will owe no tax, thus maintaining their war tax resistance.*

2002: *“We received financial aid while our two sons were attending Marquette. I do file annually, with a due line, though I don’t pay.... The funding source wants to assure itself, by a margin of safety, that your income is what is reported on the financial aid application.”*

2001: *“If a person volunteers to the school that they or their parents are war tax resisters, we’ve heard that schools have denied them financial aid, because they’re afraid of getting audited. So it seems to fall into the “Don’t ask, don’t tell” category.*

1994: *“When my son went to Cornell and they asked me for a tax return I explained my situation to them. At first I was told that he couldn’t get financial aid. But when I labored with them about Cornell being founded by a Quaker, they told me they would file his financial aid and there was a 1 in 4 chance that it would be audited. In which case he would lose his grant. It apparently wasn’t.”*

Please send stories to NWTRCC at the contact address or email below so that we can keep updating and improving this information.

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