



Public Testimony of

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Before the Advisory Committee on Student Financial Assistance
Fall 2006 Hearing -- September 19, 2006

Thank you for this opportunity to comment on the issue of financial aid simplification and Dr. Sandy Baum's presentation. My name is Lauren Asher, and I am the Associate Director of the Institute for College Access and Success (TICAS). TICAS is a nonprofit, nonpartisan policy and research organization working to make higher education more available and affordable for people of all backgrounds.

The Advisory Committee and Dr. Baum are rightly concerned about the complexity of financial aid process, which can deter students and families with financial need from receiving, or even understanding that they could receive, college aid. As noted in the proposed study design, it is essential that simplification efforts actually reduce real process and financial barriers for students and families, and do so cost effectively. A simpler Estimated Family Contribution (EFC) formula that meets these criteria would help make the aid process less burdensome and opaque for aspiring students and their families.

However, it will take time to conduct the necessary research and more time to actually approve and implement a new EFC formula, which requires Congress to make difficult and easily politicized decisions about eligibility, equity and cost. In the meantime, millions of prospective and current students are likely to miss out on needed aid and degrees.

The Advisory Committee has just released a report estimating that in this decade, 1.4 to 2.4 million college-qualified high school graduates will *not* complete a bachelor's degree because of financial constraints.¹ Research by the American Council on Education (ACE) found that in 2004 alone, an estimated 1.5 million Pell-eligible college students did not fill out the Free Application for Federal Student Aid (FAFSA), nearly double the number in 2000.² Even as financial aid application rates are rising for students as a whole, application rates for the lowest income students are flat for dependent students

and declining for independent students.³ These students are missing out on resources that could increase the odds of success by helping them go to school full time, work reasonable hours, and attend institutions that best fit their needs.

The Advisory Committee and others have consistently found that the complexity of our financial aid process is a substantial part of the problem, including the many questions required by the current EFC formula. Still, even a simplified formula will rely on some income data that can be challenging for students and families to retrieve and accurately transmit. As noted in a recent paper by Harvard economists Susan Dynarski and Judith Scott-Clayton, “[T]he behavioral literature demonstrates conclusively that even seemingly minor complexities can have profound impacts upon the equity and efficiency of a policy.”⁴ Their findings include that “the basic step of locating financial records is an obstacle for poor students, due to higher mobility rates and family dysfunctions such as divorce and separation of children from parents.”⁵

There is a practical way to help lower this obstacle to access and aid that would complement, but not rely on, an eventually revised EFC formula. Simply put, the government already has some of the most important information used to calculate aid eligibility. It resides in people’s tax records. Indeed, Dr. Baum raised the potential benefits of tapping IRS data in her presentation today.

Regardless of the underlying formula, the financial aid process would be much less intimidating and time consuming for students and parents if they did not have to sift through and analyze piles of tax and wage records. This can be accomplished if applicants give the Department of Education permission to draw information directly from their tax transcripts instead. The Department could then process the data electronically, making the application process easier for the user while increasing accuracy and efficiency, since the data would already be verified by the IRS.

Tax transcripts are available for free, and people routinely give third parties access to them when applying for loans, including Small Business Administration loans.⁶ Many commercial entities use this tool, with taxpayers’ explicit permission, to verify a wide range of income information.⁷ Some local governments have also started using this approach to streamline applications for working family benefits.⁸ Here’s how it works: applicants complete a very basic, one-page IRS form (Form 4506-T), which asks for your name, address, Social Security number, and what years of data you need (up to four years). Right in the middle of the form it says: “If the transcript or tax information is to be mailed to a third party (such as a mortgage company), enter the third party’s name, address, and telephone number.”⁹

While the Department of Education could use the current transcript request form as is, it could also work with the IRS to integrate transcript access into the financial aid application process. For example, the private contractors running the Federal Direct Loan Program use an IRS-approved, program specific consent form to access Income Contingent Repayment Plan users’ IRS data.¹⁰ Already, when you sign the FAFSA, you agree to provide verification through income tax forms if requested *and* give the

Secretary of Education “the authority to verify information reported on this application with the Internal Revenue Service and other federal agencies.”¹¹ Why not just request permission to use income tax data to determine your financial aid eligibility, including your EFC?

Once acquired, the data can be automatically plugged into whatever formulas are currently in use. It can also be used to provide early aid estimates, whether months or years early, and later as a baseline for updates when it is time to apply to colleges. The Department already pre-populates the FAFSA renewal form, online or in print, with data from the previous year’s application. The Department also encourages applicants to enter some personal data into a “MyFSA” online profile that can then be transferred to the online FAFSA. The use of IRS transcripts would also allow the Department to base financial aid eligibility on income data from multiple years, which is likely to provide a more accurate gauge of a family’s financial situation than a snapshot of any single year.

I hope that the Advisory Committee will consider the potential simplification benefits of IRS transcript data for both EFC determination and the overall aid application process as experienced by students and their families. Thank you again for your ongoing efforts to reduce financial and process barriers to college access and success.

See below for examples of IRS transcript data access and usage, and endnotes.

Form **4506-T**

Request for Transcript of Tax Return

(Rev. April 2006)
Department of the Treasury
Internal Revenue Service

- ▶ Do not sign this form unless all applicable lines have been completed. Read the instructions on page 2.
- ▶ Request may be rejected if the form is incomplete, illegible, or any required line was blank at the time of signature.

OMB No. 1545-1872

Tip: Use Form 4506-T to order a transcript or other return information free of charge. See the product list below. You can also call 1-800-829-1040 to order a transcript. If you need a copy of your return, use Form 4506, Request for Copy of Tax Return. There is a fee to get a copy of your return.

1a Name shown on tax return. If a joint return, enter the name shown first.	1b First social security number on tax return or employer identification number (see instructions)
2a If a joint return, enter spouse's name shown on tax return	2b Second social security number if joint tax return
3 Current name, address (including apt., room, or suite no.), city, state, and ZIP code	
4 Previous address shown on the last return filed if different from line 3	
5 If the transcript or tax information is to be mailed to a third party (such as a mortgage company), enter the third party's name, address, and telephone number. The IRS has no control over what the third party does with the tax information.	

Caution: If a third party requires you to complete Form 4506-T, do not sign Form 4506-T if lines 6 and 9 are blank.

6 **Transcript requested.** Enter the tax form number here (1040, 1065, 1120, etc.) and check the appropriate box below. Enter only one tax form number per request. ▶ _____

- a **Return Transcript**, which includes most of the line items of a tax return as filed with the IRS. Transcripts are only available for the following returns: Form 1040 series, Form 1065, Form 1120, Form 1120A, Form 1120H, Form 1120L, and Form 1120S. Return transcripts are available for the current year and returns processed during the prior 3 processing years. Most requests will be processed within 10 business days
- b **Account Transcript**, which contains information on the financial status of the account, such as payments made on the account, penalty assessments, and adjustments made by you or the IRS after the return was filed. Return information is limited to items such as tax liability and estimated tax payments. Account transcripts are available for most returns. Most requests will be processed within 30 calendar days
- c **Record of Account**, which is a combination of line item information and later adjustments to the account. Available for current year and 3 prior tax years. Most requests will be processed within 30 calendar days
- 7 **Verification of Nonfiling**, which is proof from the IRS that you **did not** file a return for the year. Most requests will be processed within 10 business days
- 8 **Form W-2, Form 1099 series, Form 1098 series, or Form 5498 series transcript.** The IRS can provide a transcript that includes data from these information returns. State or local information is not included with the Form W-2 information. The IRS may be able to provide this transcript information for up to 10 years. Information for the current year is generally not available until the year after it is filed with the IRS. For example, W-2 information for 2003, filed in 2004, will not be available from the IRS until 2005. If you need W-2 information for retirement purposes, you should contact the Social Security Administration at 1-800-772-1213. Most requests will be processed within 45 days

Caution: If you need a copy of Form W-2 or Form 1099, you should first contact the payer. To get a copy of the Form W-2 or Form 1099 filed with your return, you must use Form 4506 and request a copy of your return, which includes all attachments.

9 **Year or period requested.** Enter the ending date of the year or period, using the mm/dd/yyyy format. If you are requesting more than four years or periods, you must attach another Form 4506-T. For requests relating to quarterly tax returns, such as Form 941, you must enter each quarter or tax period separately.

_____ / _____ / _____
 _____ / _____ / _____
 _____ / _____ / _____
 _____ / _____ / _____

Signature of taxpayer(s). I declare that I am either the taxpayer whose name is shown on line 1a or 2a, or a person authorized to obtain the tax information requested. If the request applies to a joint return, either husband or wife must sign. If signed by a corporate officer, partner, guardian, tax matters partner, executor, receiver, administrator, trustee, or party other than the taxpayer, I certify that I have the authority to execute Form 4506-T on behalf of the taxpayer.

Sign Here		Date	Telephone number of taxpayer on line 1a or 2a ()
	Signature (see instructions)		
	Title (if line 1a above is a corporation, partnership, estate, or trust)		
	Spouse's signature	Date	

Verify Income in 24 hours

IRSRecords is the fastest way to verify a borrower's income information via the IRS 4506 Form. Using high caliber connections and automated processes IRSRecords delivers to lenders quality tax information for individual and corporate taxpayers in record time directly from the source.

4506-T Request for Transcript of Tax Return
 Form 4506-T (01/08) 4506-T (01/08) 4506-T (01/08)

Department of the Treasury Internal Revenue Service

Request for Transcript of Tax Return

Read the instructions on page 2.

Request may be rejected if the form is incomplete, illegible, or any required part was blank at the time of signature.

Use New Form 4506-T to order a transcript or other return information free of charge. See the product list below. You can also call 1-800-829-1040 to order a transcript. If you need a copy of your return, use Form 4506. Request for Copy of Tax Return. There is a fee to get a copy of your return.

1a Name shown on tax return. If a joint return, enter the name shown first. **1b** First social security number on tax return or employer identification number (see instructions)

2a If a joint return, enter spouse's name shown on tax return **2b** Second social security number if joint tax return

3 Current name, address (including apt., room, or suite no.), city, state, and ZIP code

4 Address (including apt., room, or suite no.), city, state, and ZIP code shown on the tax return filed if different from line 3

5 If the transcript or tax information is to be mailed to a third party (such as a mortgage company), enter the third party's name, address, and telephone number. The IRS has no control over what the third party does with the tax information.

CAUTION: Lines 6 and 7 must be completed if the third party requests you to complete Form 4506-T. The user signs Form 4506-T if the third party requests that you sign Form 4506-T and lines 6 and 7 are blank.

6 Product requested. Most requests will be processed within 10 business days. If the product requested relates to information from a return filed more than 4 years ago, it may take up to 30 days. Enter the return number here and check the box below.

a Return Transcript, which includes most of the tax returns filed with the IRS. Transcripts are generally available for the following returns: Form 1040 series, Form 1065, Form 1099, Form 1120, Form 1120B, Form 1120S, and Form 1120C. Return transcripts are available for the current year and returns processed during the prior 3 preceding years.

b Account Transcript, which contains information on the financial status of the account, with no payments made on the account, penalty assessments, and adjustments made by you or the IRS after the return was filed. Return information is limited to items such as tax liability and estimated tax payments. Account transcripts are available for most returns.

c Record of Account, which is a combination of new return information and later adjustments to the account. Available for current year and 3 prior tax years.

d Verification of Billing, which is proof from the IRS that you did not file a return for the year.

7 Form W-2, Form 1099 series, Form 1098 series, or Form 4488 series transcript. The IRS can provide a transcript that includes data from these information returns. State and local information not included with the Form W-2 information. The IRS may be able to provide this transcript information for up to 10 years. Information for the current year is generally not available until the year after it is filed with the IRS. For example, W-2 information for 2003 filed in 2004, will not be available from the IRS until 2005. If you need W-2 information for statement purposes, you should contact the Social Security Administration at 1-800-772-1213.

CAUTION: If you need a copy of Form W-2 or Form 1099, you should first contact the payer. To get a copy of the Form W-2 or Form 1099 that was your return, you must use Form 4506 and request a copy of your return, which includes attachments.

8 Year or period requested. Enter the auditing date of the year or period, using the mm/dd/yyyy format. If you are requesting more than four years or periods, you must attach another Form 4506-T.

Signature of taxpayer(s) I declare that I am either the taxpayer whose return is shown on line 1a or 2a, or a person authorized to obtain the tax information requested. If the return applies to a joint return, either husband or wife, sign. If signed by a corporation, partner, guardian, or trustee, partner, beneficial owner, administrator, trustee, or party owner (see the language). I certify that I have the authority to execute Form 4506-T on behalf of the taxpayer.

1 Telephone number of taxpayer on line 1a or 2a

Sign Here Signature (see instructions) Date

The printer will print a signature for you if you are a corporation, partnership, estate, or trust.

2 Preparer's signature Date

For Privacy Act and Paperwork Reduction Act Notice, see page 2. Cat. No. 1796776 Form 4506-T (1-2008)

IRSRecords Benefits & Advantages:

- _ 99.9 percent of results in 24 hours
- _ Provides access to 1040, 1120, 1065, and any other information filed against the IRS
- _ W-2's and 1099's delivered in as little as 1 business day
- _ Improved processing methods that minimize IRS rejections
- _ HACKER FREE Online Order Submission and Archiving
- _ Comprehensive reports in easy-read PDF format
- _ Reduced rates when ordered in bundle with 1003AppScan or PreQualita
- _ Volume Discounts Available



VERIFICATION BUREAU
 MASTERING FRAUD PREVENTION

Direct Loans

William D. Ford Federal Direct Loan Program

William D. Ford Federal Direct Loan Program Income Contingent Repayment Plan Consent to Disclosure of Tax Information

OMB No. 1845-0017
Form Approved
Exp. Date 3/31/2009

I (We) authorize the Internal Revenue Service (IRS) to disclose certain tax return information (for the tax years listed below) which includes my (our) name(s), address(es), Social Security Number(s), filing status, tax year, and Adjusted Gross Income(s). This information will be disclosed to the U.S. Department of Education (ED) and the William D. Ford Federal Direct Loan (Direct Loan) Program contractors and subcontractors for the sole purpose of determining the appropriate income contingent repayment amount on the Direct Loan Program loan(s) that is subject to income contingent repayment. ED's Direct Loan Program contractors and subcontractors may change. You may obtain the names of the current Direct Loan Program contractors and subcontractors by writing to ED at the address shown at the bottom of this page.

Request for Tax Years: 2004, 2005, 2006, 2007, and 2008.

See the back of this form for instructions.

(1) Borrower's (Taxpayer's) Name Printed as it appears on tax returns

(2) Borrower's (Taxpayer's) Social Security Number

(3) Borrower's (Taxpayer's) Signature
Signature is valid for 60 days – see instructions on the back of the form.

____-____-____ (MM-DD-YYYY)
Date form was signed

PLEASE NOTE: If you are married, your spouse is required to complete the following:

(4) Spouse's (Taxpayer's) Name Printed as it appears on tax returns

(5) Spouse's (Taxpayer's) Social Security Number

(6) Spouse's (Taxpayer's) Signature
Signature is valid for 60 days – see instructions on the back of the form.

____-____-____ (MM-DD-YYYY)
Date form was signed

Return this form to: U.S. Department of Education
Consolidation Department
Loan Origination Center
P.O. Box 242800
Louisville, KY 40224-2800

¹ *Mortgaging Our Future: How Financial Barriers to College Undercut America's Global Competitiveness*, Advisory Committee on Student Financial Assistance, September 2006.

² King, Jacqueline, *Missed Opportunities: New Information on Students Who Do Not Apply for Financial Aid*, American Council on Education, February 2006.

³ Ibid. King defines “lowest income students” as dependent students with income less than \$20,000 and independent students with income less than \$10,000.

⁴ Dynarski, Susan M. and Judith E. Scott Clayton, *The Cost of Complexity in Federal Student Aid: Lessons from Optimal Tax Theory and Behavioral Economics*, April 2006.

⁵ Ibid.

⁶ The SBA uses a co-branded version of Form 4506-T to expedite handling by the IRS Service Center, according to SBA Information Notice 5000-908 (available online at www.sba.gov/banking/notices/5000-908.doc). For an example of the co-branded form see

http://www.americafirst.com/documents/sba_form_4506.pdf#search=%224506-t%20sba%22 .

⁷ For examples of the commercial use of IRS transcripts, see <http://verificationbureau.com> (an excerpt from their brochure is depicted above) and <http://www.irstaxrecords.com>.

⁸ For more about these efforts see Flacke, T. and Tina Wertheim, *Delivering a Local EITC: Lessons from the San Francisco Working Families Credit*. The Brookings Institution and SFWorks, May 2006. For the San Francisco application form that incorporates IRS Form 4506-T, go to

http://www.sfgov.org/site/uploadedfiles/wfc/WFCApplication_english.pdf.

⁹ IRS Form 4506-T, “Request for Transcript of Tax Return,” is depicted above and is available online <http://www.irs.gov/pub/irs-pdf/f4506t.pdf#search=%224506-t%22> .

¹⁰ The form can be viewed above and at <http://www.loanconsolidation.ed.gov/forms/icr.pdf>.

¹¹ Free Application for Federal Student Aid, 2006-2007.

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