

MEMORANDUM

To: Interested Parties
From: The Institute for College Access & Success (TICAS)
Re: Simplifying the FAFSA by expanding access to the IRS Data Retrieval Tool
Date: February 11, 2015

The Obama Administration could immediately and dramatically simplify the federal student aid application process for millions of students by expanding access to the IRS Data Retrieval Tool (DRT), which can be done without additional legislation. While [reducing the number of questions](#) on the Free Application for Federal Student Aid (FAFSA) could enhance the benefits of this change, greater access to the DRT would be a major step forward even if the number of questions on the FAFSA remained the same.

The burden of filling out the FAFSA is driven not only by the number of questions but also by the ease with which those questions can be answered. Currently, more than [99%](#) of FAFSA applications are submitted online, where skip logic allows applicants to only answer questions that apply to them. The IRS DRT further streamlines the process of applying for aid by allowing some applicants to electronically transfer their tax information into the online FAFSA and skip up to 20 more high-stakes questions. In addition to shortening the time needed to fill out the FAFSA, the DRT helps students receive the aid they're eligible for. This is because students using the DRT are less likely to be selected for paperwork-intensive FAFSA "verification" procedures that cause delays and obstacles to receiving aid. As a result of the Administration's implementation of skip logic and the DRT, the average time to complete the online FAFSA is [only 20 minutes](#), down from over an hour in 2009.

At least one in five FAFSA applicants currently cannot use the DRT. Expanding access to the DRT would simplify the application process for millions more students and parents, making the average FAFSA completion time even shorter. These benefits would be immediate, even if the annual FAFSA start date remains January 1.

There are three primary ways that the Administration can immediately expand access to the DRT and thereby further simplify the FAFSA:

1. Base federal student aid eligibility on the tax data that are available when students typically apply to college.
2. Allow the DRT to transfer earnings data from IRS Forms W-2 and 1099, to simplify the aid application process for those who earn too little to owe federal income tax and do not file a Form 1040.
3. Explore broadening the categories of tax return filers that can use the DRT.

We briefly discuss each of these ways below.

Base federal student aid eligibility on the tax data available when students typically apply to college. As discussed in the [December 19, 2014 coalition letter](#) to President Obama on this topic and detailed in our 2013 [white paper](#) (see pp. 29-31), federal student aid eligibility should be based on the tax data that are available when students typically apply to college (sometimes called "prior-prior year" data). While this change would also support an earlier start to the aid application cycle, there are immediate benefits even if the FAFSA start date remains January 1. Using earlier tax data would allow millions more applicants to use the DRT to apply for aid earlier and more easily because the required tax data would already be in the IRS system.

Recent Department of Education data show that [over 4 million student aid applicants](#) (20% of the total applying in 2013-14) were unable to use the DRT because they applied for aid before they filed their taxes. Additionally, some FAFSA applicants who have already filed their taxes are not able to use the DRT due to [IRS processing times](#). It can take up to four weeks for an electronically filed 1040 form to be

available for IRS data retrieval, and up to 11 weeks if the 1040 was filed on paper. Using tax data already in the IRS system would significantly reduce the complexity of the process and the time to complete the FAFSA for millions of students and families, as well as help them meet state and college aid deadlines and reduce the burden of FAFSA verification for both students and colleges.

As noted in the coalition letter, the Secretary of Education has the authority to adjust the year of tax data used to determine federal aid eligibility in order to simplify the FAFSA process. This practical change will dramatically simplify the aid application process for millions more students and their families, help them make more informed decisions about where to apply to college, and help them receive the aid they need to get to graduation.

Allow non-tax-filers to use the DRT to transfer W-2 and 1099 data. As we most recently raised in our [public comments](#) to the Department of Education on the 2015-16 FAFSA, the DRT should be expanded to transfer earnings data from IRS Forms W-2 and 1099. In its current form, the DRT draws data only from Form 1040 (1040, 1040A, and 1040EZ). Forms W-2 and 1099 provide important earnings information for those who do not file a 1040 because they earn too little to owe federal income tax. Almost three-quarters of Pell Grant recipients have incomes so low that they do not owe federal income tax, as discussed in more detail in our report, [After the FAFSA: How Red Tape Can Prevent Eligible Students from Receiving Financial Aid](#). Basing aid eligibility on the tax data available when students typically apply to college will facilitate the use of W-2 and 1099 data, which can take longer for the IRS to process than 1040 data.

Explore expanding the categories of tax filers who can use the DRT. Currently, certain types of tax filers cannot use the DRT to transfer tax data to their FAFSAs [due to their tax filing status](#). These include tax filers who are married but file separate tax returns, those who file as head of household, parents who are unmarried and living together, those who file amended tax returns, those who file Puerto Rican or foreign tax returns, and those who changed marital status since Dec 31 of the prior year. To allow more FAFSA applicants to benefit from using the DRT, we recommend exploring whether the DRT can be made available to some or all of these categories of tax filers, and whether basing aid eligibility on the tax data available when students typically apply to college would make it easier to add certain categories of tax filers (i.e., if some filers are excluded due to longer processing times for their particular type of return, would using available tax data allow them to take advantage of the DRT?).