



Expected Family Contribution

Participant Workbook



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FEDERAL STUDENT AID

Expected Family Contribution Overview

Objectives

After completing this course, you will be able to:

- Identify the correct Expected Family Contribution (EFC) formula to use for a student applicant
- Determine when a student qualifies for a simplified or automatic zero EFC calculation
- Identify the content of the EFC Formula Guide
- Identify professional judgment situations

Key Terms

Automatic Zero EFC

An EFC status where, because of low income, a student automatically has a zero EFC.

Base Year

The calendar year that precedes an award year. (For example, 2006 is the base year for the 2007-2008 award year.)

Cost of Attendance (COA)

The total amount of allowable costs for a student to attend school—usually expressed as a yearly figure. It is determined using rules established in the Higher Education Act by the U.S. Congress.

Expected Family Contribution (EFC)

The amount a student and his or her family can be expected to contribute toward the student's education costs for the year.

Means-Tested Federal Benefit Program

A mandatory spending program of the federal government, other than a program under Title IV, in which eligibility for the program's benefits, or the amount of such benefits, are determined on the basis of income or resources of the individual or family seeking the benefit ([Dear Colleague Letter GEN-06-05](#)). Currently, these programs are: Supplemental Security Income (SSI); Food Stamps; Free and Reduced Price School Lunch Program; Temporary Assistance for Needy Families (TANF); and Special Supplemental Nutrition Program for Women, Infants, and Children (WIC).

Professional Judgment (PJ)

A provision in the law allowing financial aid administrators to make individual adjustments to override a student's dependency status (from dependent to independent), to adjust the components of a student's cost of attendance (COA), and to adjust the data elements used to calculate the student's Expected Family Contribution (EFC). Professional judgment can only be used on a case-by-case basis and the reason must be documented in the student's file. Professional judgment cannot be used to circumvent the law or Title IV regulations.

Simplified EFC Calculation

A calculation similar to the regular EFC calculation, except that asset information is not considered in the calculation. A student or a student's parents (if dependent) qualifies for the simplified calculation by meeting income and tax form (or means-tested federal benefits) requirements.

Need Analysis

The foundation of a financial aid administrator’s (FAA) work is determining a student’s need for financial aid: the difference between a student’s cost of attending a school and the expected amount of the family’s contribution. This process is called need analysis. Need-based funds are available to assist with educational costs that exceed a family’s ability to pay educational costs.

While performing need analysis, keep in mind that a student and the student’s family have primary responsibility to pay for that student’s educational costs. Students (and parents, if a student is dependent) are expected to contribute to the extent that they are able. Families’ present financial conditions are evaluated equitably and consistently, ensuring reasonable distribution of limited federal funds.

The familiar expression for determining need is:

$$\text{Need} = \text{Cost of Attendance (COA)} - \text{Expected Family Contribution (EFC)}$$

Cost of Attendance

A student’s COA, or the total amount of allowable costs for a student to attend an institution, is a combination of: tuition and fees; room and board allowance; allowances for books, supplies, transportation, loan fees, and, if applicable, dependent care; miscellaneous expenses, including an allowance for the rental or purchase of a personal computer; costs related to a disability; and reasonable costs for eligible study-abroad programs. For students attending less than half time, see the [Dear Colleague Letter GEN-06-05](#) for updates to cost of attendance components made by the Higher Education Reconciliation Act (HERA) of 2005.

How does your institution determine COA? Where can you locate this information or whom can you ask?

Expected Family Contribution

A student’s EFC is calculated according to a formula specified by law (Part F of the Title IV Higher Education Act of 1965, as amended [HEA], Sections 474-479). The federal methodology measures available discretionary resources and establishes a portion for education.

The EFC formula is used to determine need for assistance from federal programs: Federal Pell Grants, Academic Competitiveness Grants (ACGs), National Science and Mathematics Access to Retain Talent (National SMART) Grants, subsidized Stafford Loans (Direct Loan or Federal Family Education Loan [FFEL]), and campus-based programs (Federal Supplemental Educational Opportunity Grants [FSEOG], Federal Perkins Loans, and Federal Work-Study [FWS]).

The remainder of this lesson reviews what you know of EFC calculations to gear up for the remainder of the course, discusses hand-calculating an EFC, and provides food for thought about how professional judgment plays a part in determining a student’s need.

Calculating the EFC

The Central Processing System (CPS) collects and processes all financial aid application data and uses the formulas defined by law to calculate students' EFCs. The data used to calculate a student's EFC comes from the information that the student provides on their application. Where needed, the CPS makes data assumptions for field values (for instance, if a field needed for an EFC calculation was left blank).

The CPS first determines a student's dependency status, and then calculates a student's (or family's) EFC using the appropriate EFC federal methodology model. The criteria for determining if a student is considered independent for financial aid purposes is found in many places. For this course, refer to the criteria outlined in the *EFC Formula Guide*.

As you know, the law establishes methodologies and formulas to calculate students' EFCs. The three federal methodology models for EFC are:

- Dependent students
- Independent students without dependents other than a spouse
- Independent students with dependents other than a spouse

Note:



An FAA can make a determination of independence with documentation of unusual circumstances, even if the student initially filed as a dependent student. (This falls into the category of professional judgment, which is briefly discussed later in this lesson and more fully discussed later in this course.)

After determining dependency status, the CPS considers three distinct formulas:

- Regular EFC
- Simplified EFC
- Automatic Zero EFC

The *EFC Formula Guide* also provides information about a special calculation for other than nine-month enrollments.

Regular EFC Formula

Many variables and factors affect the regular EFC calculation, including the number of persons in the household, the number attending college for the award year, income (taxed and untaxed), taxes paid, assets, age of the older parent, and the number of wage earners.

A basic premise of the EFC calculation is that family resources are devoted first to basic subsistence. To this end, allowances are built in to the EFC calculation (see the supporting worksheet tables in the *EFC Formula Guide*) that protect family resources, particularly basic needs and non-education-related discretionary costs.

Simplified EFC Formula

The simplified formula is basically the same as the regular formula, except that asset information is not considered in the EFC calculation. HERA added an alternative for the tax form requirement and removed dependent students as part of that requirement.

- A dependent student qualifies for the simplified EFC calculation when:
 - The parents' combined Adjusted Gross Income (AGI, for tax filers) or income earned from work (for nonfilers) was \$49,999 or less, and
 - Either the parents were not required to file an IRS Form 1040, or anyone counted in their household size received a means-tested federal benefit during the base year.
- An independent student qualifies for the simplified EFC calculation when:
 - The student's and spouse's combined AGI (tax filers) or income earned from work (nonfilers) was \$49,999 or less, and
 - Either the student and spouse were not required to file an IRS form 1040, or anyone counted in the household size received a means-tested federal benefit during the base year.

Notes:



- *As an alternative to meeting the tax form requirement for qualifying for the simplified or automatic zero EFC, the calculation checks whether anyone counted in the household size received a means-tested federal benefit during the base year. Programs providing such benefits are: Supplemental Security Income (SSI), Food Stamps, Free and Reduced Price School Lunch Program, Temporary Assistance for Needy Families (TANF), and Special Supplemental Nutrition Program for Women, Infants, and Children (WIC).*
- *A person need not have received a means-tested federal benefit for the entire base year to qualify; receiving it at any time in the year qualifies.*

Automatic Zero EFC Formula

The law also provides for an automatic zero EFC for some students, which you determine while completing a regular EFC calculation. The same HERA changes for the simplified formula apply to the automatic zero (the alternative for the tax form requirement and removing dependents). Additionally, HERA also changed the automatic zero income maximum from \$15,000 to \$20,000.

- A dependent student qualifies for an automatic zero EFC when:
 - The parents' combined AGI (tax filers) or income earned from work (for nonfilers) was \$20,000 or less, and
 - Either the parents were not required to file an IRS Form 1040, or anyone counted in their household size received a means-tested federal benefit during the base year.



Activity – Identify the Correct EFC Formula

For each of the following scenarios, determine which EFC formula is used (either by the CPS or by an FAA doing a hand calculation) and why you chose that formula. Then complete the remaining questions for each scenario.

Scenario 1

Greg and Jane just returned from their one-year wedding anniversary trip (a belated honeymoon). Greg is preparing to finish his last two semesters, attending full-time, toward his teaching degree at Teacher’s College in Nevada. Greg is applying for financial aid.

During the past few summers, Greg has worked full-time with a construction team. During 2006, Greg earned \$12,600. Jane works full-time all year as a croupier in Las Vegas, earning \$36,000 annually. Jane is eligible for her employer’s 401(k), to which she contributes \$300 monthly. Together, they reported an AGI of \$40,000 on their 1040A for tax year 2006.

Which EFC calculation is used and why?

Which pages of the *EFC Formula Guide* are referenced and completed for this EFC calculation?

What is Greg and Jane’s Social Security Tax percentage?

Scenario 2

Lisa, age 20, is attending Jefferson Community College in Virginia. She lives at home with her two parents and her younger brother, who also attends college.

Lisa's parents' adjusted gross income in 2006 was \$56,000. Her father, age 50, earned \$50,000, and contributed \$3,500 to his company's 401(k) plan. Her mother, age 47, is retired on disability and has \$3,000 in untaxed Social Security income. They have \$10,000 in their checking and savings accounts. Lisa's parents filed an IRS Form 1040A for 2006 and paid \$4,800 in federal income taxes.

Lisa earned \$2,400 in 2006 and has \$800 in her own checking and savings accounts. Her IRS Form 1040EZ showed an AGI of \$2,500; she paid no income tax.

Which EFC calculation is used and why?

Which pages of the *EFC Formula Guide* are referenced and completed for this EFC calculation?

What is Lisa's state tax allowance?

Scenario 3

Thomas, 27, is a widower in his second year of law school at Legal University in Ohio. Thomas has worked as a year-round, part-time intern for a local judge since 2005. He earns about \$1,300 a month with which he supports himself and his daughter, Tina. Tina is eligible for and receives free or reduced price lunches. Fortunately, Tina’s grandparents are available to pick up Tina after school and watch her until Thomas returns home for a late dinner. Thomas has checking and savings assets totaling \$5,590.

Which EFC calculation is used and why?

Which pages of the *EFC Formula Guide* are referenced and completed for this EFC calculation?

What is Thomas’s Income Protection Allowance?

Professional Judgment

In some cases, the CPS-calculated EFC doesn't seem to fit the student's or family's real financial situation. The law allows you, as an FAA, to account for special circumstances by using professional judgment (PJ) to make reasonable adjustments on a case-by-case basis (HEA 479(A)(a)).

Any inconsistencies, inaccuracies, or conflicting information must be resolved before any PJ adjustments are made.

Special circumstances are conditions that exist for an individual student, not for a whole class of students, and may include (but are not limited to):

- Recent unemployment of the student, spouse, or contributing parent
- Medical or dental expenses not covered by insurance
- Unusually high child care costs
- Tuition expenses at an elementary school or secondary school
- A parent enrolled at least half time in a program leading to a degree or certificate at an eligible institution
- Other changes in the family's income or assets, or in the student's status

Note:



You must fully document all professional judgment decisions. Your decisions as an FAA should reflect the school's established policies. The school is held accountable for all PJ decisions made.

What are your institution's professional judgment policies? Where can you locate this information and/or whom could you ask?

PJ Adjustments Allowed

In making a PJ adjustment, you can adjust the value of specific data reported on the application and used in the EFC calculations and adjust the cost of attendance. As mentioned previously, FAAs can also change a student's dependency status from dependent to independent.

For example, if a student's parents had an AGI of \$23,000, but they had unreimbursed medical and dental expenses of \$4,900, you might decide to adjust the reported AGI to take into account the unusually high medical and dental expenses (only those medical and dental expenses not already adjusted on the tax form).

Note:



An FAA can use PJ to count a means-tested federal benefit if a person did not receive it in the base year but is receiving it now.

PJ Adjustments Not Allowed

By law, you are not allowed to make PJ adjustments like:

- Modifying the formulas or tables in the EFC calculations
- Adjusting data just because you do not believe in the adequacy or appropriateness of the formulas or tables
- Waiving student eligibility requirements to circumvent the intent of the law or regulations

You have opportunities throughout the remainder of this course to consider and apply professional judgment to various scenarios.

EFC

Dependent Regular Worksheet A

Objectives

After completing this lesson, you will be able to:

- Calculate the EFC using Worksheet A
- Identify allowances against student's and parent's income
- Evaluate impact of assets for both parents and students
- Evaluate inclusion of untaxed income from FAFSA worksheets A, B, and C

Scenario 1

- Dependent student
- Florida resident
- Age of older parent 52
- Parent’s AGI \$78,000
- Filed 1040
- Student’s income \$2,240
- Household size 5
- Number in college 2
- Investments of \$28,000
- Ownership of a small business with 105 full-time employees worth \$122,000

Which formula should be applied using the information provided?

- Regular
- Simplified
- Automatic Zero

Why?

An asset of \$10,000 would likely result in a higher EFC for a dependent student

- If reported as a parent's asset
- If reported as a student's asset

Why?

Scenario 2 - Activity

Brenda Duvall is preparing to return to college in the coming year. She resides with both her parents and brother and sister in Dayton, OH. Her sister also attends college. Her mother is 52 and her father is 51. They both work and filed a 1040 tax return in the previous year. Their adjusted gross income was \$100,800. Her father's income earned from work was \$62,000 and her mother's was \$50,000. Both parents contribute to a pre-tax 401K plan. Her parents filed a joint tax return and paid \$6,200 in federal income tax. Other than their home, her parents only have checking and savings accounts in the amount of \$3,200 as assets.

Brenda filed a 1040A tax return with an adjusted gross income of \$3,290 on which she paid \$328 in taxes. In addition to her earnings from her summer job, she held a work study job from which \$1,050 would be reported as taxable earnings on FAFSA Worksheet C. Brenda maintains a modest checking account balance of \$50, but she also has a college saving fund in her name in the amount of \$3,075.

Your task is to calculate Brenda's EFC based on the information provided.

On the following pages, you will find a partially completed Regular Worksheet A for a dependent student. Use the information provided above to complete the remaining portions of the worksheet and calculate Brenda's EFC.

To complete this task, you will also need the calculation tables for Worksheet A provided in the EFC Formula Guide pages 17-20.

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REGULAR
WORKSHEET
Page 1

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PARENTS' INCOME IN 2006	
1. Parents' Adjusted Gross Income (FAFSA/SAR #79) If negative, enter zero.	100,800
2. a. Father's/stepfather's income earned from work (FAFSA/SAR #82)	62,000
2. b. Mother's/stepmother's income earned from work (FAFSA/SAR #83)	50,000
Total parents' income earned from work	= 112,000
3. Parents' Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)*	
4. Untaxed income and benefits:	
• Total from FAFSA Worksheet A (FAFSA/SAR #84)	0
• Total from FAFSA Worksheet B (FAFSA/SAR #85)	0
Total untaxed income and benefits	= 0
5. Taxable and untaxed income (sum of line 3 and line 4)	
6 Total from FAFSA Worksheet C (FAFSA/SAR #86)	0
7 TOTAL INCOME (line 5 minus line 6) May be a negative number.	=

ALLOWANCES AGAINST PARENTS' INCOME	
8 2006 U.S. income tax paid (FAFSA/SAR #80) (tax filers only) If negative, enter zero.	6,200
9 State and other tax allowance (Table A1) If negative, enter zero.	+
10. Father's/stepfather's Social Security tax allowance (Table A2)	4,743
11. Mother's/stepmother's Social Security tax allowance (Table A2)	+
12. Income protection allowance (Table A3)	+
13. Employment expense allowance:	
• Two working parents: 35% of the lesser of the earned incomes, or \$3,200, whichever is less	
• One-parent families: 35% of earned income, or \$3,200, whichever is less	
• Two-parent families, one working parent: enter zero	+
14. TOTAL ALLOWANCES	=

AVAILABLE INCOME	
Total income (from line 7)	
Total allowances (from line 14)	-
15. AVAILABLE INCOME (AI) May be a negative number.	=

PARENTS' CONTRIBUTION FROM ASSETS	
16. Cash, savings & checking (FAFSA/SAR #87)	3,200
17. Net worth of investments** (FAFSA/SAR #88) If negative, enter zero.	0
18. Net worth of business and/or investment farm (FAFSA/SAR #89) If negative, enter zero.	0
19. Adjusted net worth of business/farm (Calculate using Table A4.)	+ 0
20. Net worth (sum of lines 16, 17, and 19)	=
21. Education savings and asset protection allowance (Table A5)	-
22. Discretionary net worth (line 20 minus line 21)	=
23. Asset conversion rate	× .12
24. CONTRIBUTION FROM ASSETS If negative, enter zero.	=

PARENTS' CONTRIBUTION	
AVAILABLE INCOME (AI) (from line 15)	
CONTRIBUTION FROM ASSETS (from line 24)	+
25. Adjusted Available Income (AAI) May be a negative number.	=
26. Total parents' contribution from AAI (Calculate using Table A6.) If negative, enter zero.	
27. Number in college in 2007-2008 (Exclude parents) (FAFSA/SAR #67)	+ 2
28. PARENTS' CONTRIBUTION (standard contribution for nine month enrollment)*** If negative, enter zero.	=

**Do not include the family's home.

***To calculate the parents' contribution for other than nine month enrollment, see page 11.

REGULAR
WORKSHEET
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STUDENT'S INCOME IN 2006	
29. Adjusted Gross Income (FAFSA/SAR #35) If negative, enter zero.	3,290
30. Income earned from work (FAFSA/SAR #38)	3,290
31. Taxable Income (If tax filer, enter the amount from line 29. If non-tax filer, enter the amount from line 30.)	3,290
32. Untaxed income and benefits:	
Total from FAFSA Worksheet A (FAFSA/SAR #40)	
Total from FAFSA Worksheet B (FAFSA/SAR #41)	+
Total untaxed income and benefits	= 0
33. Taxable and untaxed income (sum of line 31 and line 32)	
34. Total from FAFSA Worksheet C (FAFSA/SAR #42)	-
35. TOTAL INCOME (line 33 minus line 34) May be a negative number.	=

ALLOWANCES AGAINST STUDENT INCOME	
36. 2006 U.S. income tax paid (FAFSA/SAR #36) (tax filers only) If negative, enter zero.	328
37. State and other tax allowance (Table A7) If negative, enter zero.	+
38. Social Security tax allowance (Table A2)	+
39. Income protection allowance	+ 3,000
40. Allowance for parents' negative Adjusted Available Income (If line 25 is negative, enter line 25 as a positive number in line 40. If line 25 is zero or positive, enter zero in line 40.)	+ 0
41. TOTAL ALLOWANCES	=

STUDENT'S CONTRIBUTION FROM INCOME	
Total income (from line 35)	
Total allowances (from line 41)	-
42. Available income (AI)	=
43. Assessment of AI	× .50
44. STUDENT'S CONTRIBUTION FROM AI If negative, enter zero.	=

STUDENT'S CONTRIBUTION FROM ASSETS	
45. Cash, savings & checking (FAFSA/SAR #43)	50
46. Net worth of investments* (FAFSA/SAR #44) If negative, enter zero.	
47. Net worth of business and/or investment farm (FAFSA/SAR #45) If negative, enter zero.	+ 0
48. Net worth (sum of lines 45 through 47)	=
49. Assessment rate	× .20
50. STUDENT'S CONTRIBUTION FROM ASSETS	=

EXPECTED FAMILY CONTRIBUTION	
PARENTS' CONTRIBUTION (from line 28)	
STUDENT'S CONTRIBUTION FROM AI (from line 44)	+
STUDENT'S CONTRIBUTION FROM ASSETS (from line 50)	+
51. EXPECTED FAMILY CONTRIBUTION (standard contribution for nine month enrollment)** If negative, enter zero.	=

*Do not include the student's home.

**To calculate the EFC for other than nine month enrollment, see the next page.

EFC: Dependent Simplified Worksheet A

Objectives

After completing this lesson, you will be able to:

- Calculate the EFC using Simplified Worksheet A
- Identify allowances against student's and parent's income
- Evaluate inclusion of untaxed income from FAFSA worksheets A, B, and C

Scenario 1

- Dependent student
- Arkansas resident
- Single parent (mother) is 49
- Parent’s AGI \$38,340
- Filed 1040A
- Student’s income \$4,200
- Household size 3
- Number in college 1

Which formula should be applied using the information provided?

- Regular
- Simplified
- Automatic zero

Why?

Scenario 2 - Activity

Justin Clay is preparing to attend to college for his second year. He resides with his father and brother in Princeton, KY. His father is 49, works, and filed a 1040A tax return in the previous year. His income earned from work and adjusted gross income was \$28,600 and he paid \$3,916 in federal income tax. Other than their home, Justin's father only has checking and savings accounts in the amount of \$1,200 as assets.

Justin filed a 1040A tax return with an adjusted gross income of \$7,680 on which he paid \$774 in taxes. In addition to his earnings from his job, he received a scholarship for \$800, which would be reported as taxable earnings on FAFSA Worksheet C.

Your task is to calculate Justin's EFC based on the information provided.

On the following pages, you will find a partially completed Simplified Worksheet A for a dependent student. Use the information provided above to complete the remaining portions of the worksheet and calculate Justin's EFC.

To complete this task, you will also need the calculation tables for Worksheet A provided in the EFC Formula Guide pages 17-20.

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WORKSHEET
Page 1

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PARENTS' INCOME IN 2006	
1. Parents' Adjusted Gross Income (FAFSA/SAR #79) If negative, enter zero.	28,600
2. a. Father's/stepfather's income earned from work (FAFSA/SAR #82) <u>28,600</u>	
2. b. Mother's/stepmother's income earned from work (FAFSA/SAR #83) + _____	
Total parents' income earned from work =	28,600
3. Parents' Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)*	28,600
4. Untaxed income and benefits:	
• Total from FAFSA Worksheet A (FAFSA/SAR #84) _____	
• Total from FAFSA Worksheet B (FAFSA/SAR #85) + _____	
Total untaxed income and benefits =	0
5. Taxable and untaxed income (sum of line 3 and line 4)	28,600
6 Total from FAFSA Worksheet C (FAFSA/SAR #86) -	0
7. TOTAL INCOME (line 5 minus line 6) May be a negative number. =	28,600

ALLOWANCES AGAINST PARENTS' INCOME	
8 2006 U.S. income tax paid (FAFSA/SAR #80) (tax filers only) If negative, enter zero.	3,916
9 State and other tax allowance (Table A1) If negative, enter zero. +	
10. Father's/stepfather's Social Security tax allowance (Table A2) +	
11. Mother's/stepmother's Social Security tax allowance (Table A2) +	
12. Income protection allowance (Table A3) +	
13. Employment expense allowance:	
• Two working parents: 35% of the lesser of the earned incomes, or \$3,200, whichever is less	
• One-parent families: 35% of earned income, or \$3,200, whichever is less	
• Two-parent families, one working parent: enter zero +	
14. TOTAL ALLOWANCES =	

AVAILABLE INCOME	
TOTAL INCOME (from line 7)	
TOTAL ALLOWANCES (from line 14) -	
15. AVAILABLE INCOME (AI) May be a negative number. =	

PARENTS' CONTRIBUTION FROM ASSETS	
16. Cash, savings & checking (FAFSA/SAR #87)	
17. Net worth of investments** (FAFSA/SAR #88) If negative, enter zero.	
18. Net worth of business and/or investment farm (FAFSA/SAR #89) If negative, enter zero.	
19. Adjusted net worth of business/farm (Calculate using Table A4.) +	
20. Net worth (sum of lines 16, 17, and 19) =	
21. Education savings and asset protection allowance (Table A5) -	
22. Discretionary net worth (line 20 minus line 21) =	
23. Asset conversion rate ×	.12
24. CONTRIBUTION FROM ASSETS If negative, enter zero. =	

PARENTS' CONTRIBUTION	
AVAILABLE INCOME (AI) (from line 15)	
CONTRIBUTION FROM ASSETS (from line 24) +	
25. Adjusted Available Income (AAI) May be a negative number. =	
26. Total parents' contribution from AAI (Calculate using Table A6.) If negative, enter zero.	
27. Number in college in 2007-2008 (Exclude parents) (FAFSA/SAR #67) ÷	1
28. PARENTS' CONTRIBUTION (standard contribution for nine month enrollment)*** If negative, enter zero. =	

**Do not include the family's home.
***To calculate the parents' contribution for other than nine month enrollment, see page 15.

SIMPLIFIED
WORKSHEET
Page 2

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STUDENT'S INCOME IN 2006	
29. Adjusted Gross Income (FAFSA/SAR #35) If negative, enter zero.	7,680
30. Income earned from work (FAFSA/SAR #38)	6,880
31. Taxable Income (If tax filer, enter the amount from line 29. If non-tax filer, enter the amount from line 30.)	7,680
32. Untaxed income and benefits:	
Total from FAFSA Worksheet A (FAFSA/SAR #40)	
Total from FAFSA Worksheet B (FAFSA/SAR #41)	+
Total untaxed income and benefits	= 0
33. Taxable and untaxed income (sum of line 31 and line 32)	
34. Total from FAFSA Worksheet C (FAFSA/SAR #42)	-
35. TOTAL INCOME (line 33 minus line 34) May be a negative number.	=

ALLOWANCES AGAINST STUDENT INCOME	
36. 2006 U.S. income tax paid (FAFSA/SAR #36) (tax filers only) If negative, enter zero.	774
37. State and other tax allowance (Table A7) If negative, enter zero.	+
38. Social Security tax allowance (Table A2)	+
39. Income protection allowance	+ 3,000
40. Allowance for parents' negative Adjusted Available Income (If line 25 is negative, enter line 25 as a positive number in line 40. If line 25 is zero or positive, enter zero in line 40.)	+ 528
41. TOTAL ALLOWANCES	=

STUDENT'S CONTRIBUTION FROM INCOME	
TOTAL INCOME (from line 35)	
TOTAL ALLOWANCES (from line 41)	-
42. Available income (AI)	=
43. Assessment of AI	× .50
44. STUDENT'S CONTRIBUTION FROM AI If negative, enter zero.	=

STUDENT'S CONTRIBUTION FROM ASSETS	
45. Cash, savings & checking (FAFSA/SAR #43)	+
46. Net worth of investments* (FAFSA/SAR #44) If negative, enter zero.	
47. Net worth of business and/or investment farm (FAFSA/SAR #45) If negative, enter zero.	+
48. Net worth (sum of lines 45 through 47)	=
49. Assessment rate	× .28
50. STUDENT'S CONTRIBUTION FROM ASSETS	=

EXPECTED FAMILY CONTRIBUTION	
PARENTS' CONTRIBUTION (from line 28)	
STUDENT'S CONTRIBUTION FROM AI (from line 44)	+
STUDENT'S CONTRIBUTION FROM ASSETS (from line 50)	+
51. EXPECTED FAMILY CONTRIBUTION standard contribution for nine month enrollment. If negative, enter zero.**	=

*Do not include the student's home.

**To calculate the EFC for other than nine month enrollment,
see the next page.

**Note: Do not complete the shaded areas;
asset information is not required in the
simplified formula.**

EFC - Independent Regular Worksheets B and C

Objectives

After completing this lesson, you will be able to:

- Calculate the EFC using Worksheets B and C
- Identify allowances against a student's and spouse's income
- Evaluate impact of assets
- Evaluate inclusion of untaxed income from FAFSA worksheets A, B, and C

Scenario 1

- Independent student without dependents
- Tennessee resident
- Student’s AGI \$16,500
- Owns a small business with 112 full-time equivalent employees and a net worth of 27,000
- Student’s age 29
- Required to file 1040
- Household size 1
- Number in college 1

Which formula should be applied using the information provided?

- Regular
- Simplified
- Automatic zero

Why?

Scenario 2 - Activity

Will and Yolynda Yates are married with one child, and Will has decided to go back to school and work part time. They reside in Big Stone Gap, VA. Will is 29, and he and Yolynda filed a joint 1040A tax return in the previous year. His income earned from work was \$8,800, and Yolynda's was \$27,000. Their adjusted gross income was \$36,200, and they paid \$4,859 in federal income tax. Other than their checking and savings accounts in the amount of \$1,300, they own a small arts and crafts business valued at \$27,000 that employs 115 full-time equivalent workers. They received an untaxed portion of an IRA distribution for \$1,240. The source was their IRS Form 1040A—lines (11a minus 11b). This amount would be reported as taxable earnings on FAFSA Worksheet B.

Your task is to calculate Will's EFC based on the information provided.

On the following pages, you will find a partially completed Regular Worksheet C for an independent student with dependents other than a spouse. Use the information provided above to complete the remaining portions of the worksheet and calculate Will's EFC.

To complete this task, you will also need the calculation tables for Worksheet C provided in the EFC Formula Guide pages 33-35.

2007-2008 EFC FORMULA C INDEPENDENT STUDENT
With Dependent(s) Other than a Spouse

REGULAR
 WORKSHEET
 Page 1 **C**

STUDENT/SPOUSE INCOME IN 2006	
1. Student's and spouse's Adjusted Gross Income (FAFSA/SAR #35) If negative, enter zero.	36,200
2. a. Student's income earned from work (FAFSA/SAR #38) <u>8,800</u>	
2. b. Spouse's income earned from work (FAFSA/SAR #39) + <u>27,000</u>	
Total student/spouse income earned from work =	35,800
3. Student/spouse Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)*	36,200
4. Untaxed income and benefits:	
• Total from FAFSA Worksheet A (FAFSA/SAR #40)	
• Total from FAFSA Worksheet B (FAFSA/SAR #41) +	
Total untaxed income and benefits =	
5. Taxable and untaxed income (sum of line 3 and line 4)	
6. Total from FAFSA Worksheet C (FAFSA/SAR #42)	0
7. TOTAL INCOME (line 5 minus line 6) May be a negative number. =	

ALLOWANCES AGAINST STUDENT/SPOUSE INCOME	
8. 2006 U.S. income tax paid (FAFSA/SAR #36) (tax filers only) If negative, enter zero.	4,859
9. State and other tax allowance (Table C1) If negative, enter zero. +	
10. Student's Social Security tax (Table C2) +	
11. Spouse's Social Security tax (Table C2) +	2,065
12. Income protection allowance (Table C3) +	
13. Employment expense allowance:	
• Student and spouse both working: 35% of the lesser of the earned incomes, or \$3,200, whichever is less	
• One-parent families: 35% of earned income, or \$3,200, whichever is less	
• Student or spouse working (not both): zero +	3,080
14. TOTAL ALLOWANCES =	

AVAILABLE INCOME	
TOTAL INCOME (from line 7)	
TOTAL ALLOWANCES (from line 14) -	
15. AVAILABLE INCOME (AI) May be a negative number. =	

STUDENT'S/SPOUSE'S CONTRIBUTION FROM ASSETS	
16. Cash, savings & checking (FAFSA/SAR #43)	1,300
17. Net worth of investments** (FAFSA/SAR #44) If negative, enter zero.	0
18. Net worth of business and/or investment farm (FAFSA/SAR #45) If negative, enter zero.	
19. Adjusted net worth of business/farm (Calculate using Table C4.) +	
20. Net worth (sum of lines 16, 17, and 19) =	
21. Asset protection allowance (Table C5) -	
22. Discretionary net worth (line 20 minus line 21) =	
23. Asset conversion rate ×	.07
24. CONTRIBUTION FROM ASSETS If negative, enter zero.	

EXPECTED FAMILY CONTRIBUTION	
AVAILABLE INCOME (AI) (from line 15)	
CONTRIBUTION FROM ASSETS (from line 24) +	
25. Adjusted Available Income (AAI) May be a negative number. =	
26. Total contribution from AAI (Calculate using Table C6.) If negative, enter zero.	
27. Number in college in 2007-2008 (FAFSA/SAR #91) ÷	1
28. EXPECTED FAMILY CONTRIBUTION for nine month enrollment. If negative, enter zero.***	

**Do not include the student's home.
 ***To calculate the EFC for less than nine month enrollment, see the next page. If the student is enrolled for more than nine months, use the nine-month EFC (line 28 above).

Appendix A

Glossary

Automatic Zero EFC

An EFC status where, because of low income, a student automatically has a zero EFC.

Base Year

The calendar year that precedes an award year. (For example, 2006 is the base year for the 2007-2008 award year.)

Cost of Attendance (COA)

The total amount of allowable costs for a student to attend school—usually expressed as a yearly figure. It is determined using rules established in the Higher Education Act by the U.S. Congress.

Expected Family Contribution (EFC)

The amount a student and his or her family can be expected to contribute toward the student's education costs for the year.

Means-Tested Federal Benefit Program

A mandatory spending program of the federal government, other than a program under Title IV, in which eligibility for the program's benefits, or the amount of such benefits, are determined on the basis of income or resources of the individual or family seeking the benefit ([Dear Colleague Letter GEN-06-05](#)). Currently, these programs are: Supplemental Security Income (SSI); Food Stamps; Free and Reduced Price School Lunch Program; Temporary Assistance for Needy Families (TANF); and Special Supplemental Nutrition Program for Women, Infants, and Children (WIC).

Professional Judgment (PJ)

A provision in the law allowing financial aid administrators to make individual adjustments to override a student's dependency status (from dependent to independent), to adjust the components of a student's cost of attendance (COA), and to adjust the data elements used to calculate the student's Expected Family Contribution (EFC). Professional judgment can only be used on a case-by-case basis and the reason must be documented in the student's file. Professional judgment cannot be used to circumvent the law or Title IV regulations.

Simplified EFC Calculation

A calculation similar to the regular EFC calculation, except that asset information is not considered in the calculation. A student or a student's parents (if dependent) qualifies for the simplified calculation by meeting income and tax form (or means-tested federal benefits) requirements.

Appendix B

Resources

EFC Resources

FSA Download

<http://www.fsadownload.ed.gov>

ISIR Guide

Information for Financial Aid Professionals (IFAP)

<http://www.ifap.ed.gov>

Dear Partner/Colleague Letters/Electronic Announcements

- 11/28/2006: Availability of 2007-2008 Expected Family Contribution (EFC) Formula Guide
- Dear Colleague Letter: GEN-06-05 – Changes made by the Higher Education Reconciliation Act of 2005 (HERA) to Student and Institutional Eligibility, and Student Assistance General Provisions, under the Federal Student Aid Programs
- Dear Colleague Letter: GEN-06-10 – Implementing Provisions of the HERA for the 2006-2007 Award Year

EFC Formula Guide, 2007-2008

Federal Register – Updated tables used in EFC calculation (updated annually)

- July 17, 2006: Notice of revision of the Federal Need Analysis Methodology for the 2007-2008 award year

Federal Student Aid Handbook

- Volume 1: Student Eligibility
- Volume 5:
- Application and Verification Guide:
 - Chapter 3: Expected Family Contribution
 - Chapter 5: Corrections, Updates, and Adjustments

[U.S. Code Title 20 – Education, Chapter 28 – Higher Education Resources and Student Assistance, Subchapter IV – Student Assistance](#)

Appendix C

Formula Qualifications

Applicant Type	Automatic Zero EFC (<i>applicant qualifies if the following conditions apply</i>)	Simplified Needs Test (<i>applicant qualifies if the following conditions apply</i>)
Dependent student	<ul style="list-style-type: none"> • Parent(s) had adjusted gross income of \$20,000 or less; and • Either: <ul style="list-style-type: none"> ○ Parent(s) not required to file tax return or filed (or eligible to file) 1040A or EZ, or ○ Anyone counted in the household size received means-tested benefits in previous 12-month period. 	<ul style="list-style-type: none"> • Parent(s) had adjusted gross income of less than \$50,000; and • Either: <ul style="list-style-type: none"> ○ Parent(s) not required to file tax return or filed (or eligible to file) 1040A or EZ, or ○ Anyone counted in the household size received means-tested benefits in previous 12-month period.
Independent student with no spouse and no dependents	Not applicable	<ul style="list-style-type: none"> • Student had adjusted gross income of less than \$50,000; and • Either: <ul style="list-style-type: none"> ○ Student not required to file tax return or filed (or eligible to file) 1040A or EZ, or ○ Student received means-tested benefits in previous 12-month period.
Independent student with spouse and no other dependents	Not applicable	<ul style="list-style-type: none"> • Student and spouse had adjusted gross income of less than \$50,000; and • Either: <ul style="list-style-type: none"> ○ Student and spouse not required to file tax return or filed (or eligible to file) 1040A or EZ, or ○ Anyone counted in the household size received means-tested benefits in previous 12-month period.
Independent student with dependents other than a spouse	<ul style="list-style-type: none"> • Student and spouse, if any, had adjusted gross income of \$20,000 or less; and • Either: <ul style="list-style-type: none"> ○ Student and spouse, if any, not required to file tax return or filed (or eligible to file) 1040A or EZ, or ○ Anyone counted in the household size received means-tested benefits in previous 12-month period. 	<ul style="list-style-type: none"> • Student and spouse, if any, had adjusted gross income of less than \$50,000; and • Either: <ul style="list-style-type: none"> ○ Student and spouse, if any, not required to file tax return or filed (or eligible to file) 1040A or EZ, or ○ Anyone counted in the household size received means-tested benefits in previous 12-month period.