Start FAFSA Planning Earlier

The "new" FAFSA schedule (introduced in 2016) makes summer the time for FAFSA prep. On October 1, 2017, financial aid applications for the 2018-19 school year can be filed. In prior years, students had to wait until January 1 to request financial aid for the coming academic year.

Why is this important? Some observers believe that financial aid may be granted on a first come, first served basis, so the early filer may have more of a chance to receive aid. Also, filing a FAFSA early may increase the chance for merit (not need-based) aid because some colleges require the FAFSA for such grants.

In addition, FAFSA will now have real family income numbers from federal income tax returns, rather than estimates.

Example 1: Mark Thompson will start college in the fall of 2020. In October 2019, Mark can file the FAFSA. He'll use his family's income from 2018 based on the tax return filed in 2019. (Even if Mark's family gets a filing extension from April 15, 2019, the return must still be filed by October 15 of that year, so the 2018 income numbers will be available for a FAFSA filing in October 2019.)

Under the previous FAFSA schedule, Mark would have filed the FAFSA in early 2020, using estimated income numbers for 2019. Then, he would have amended the FAFSA, if necessary, to conform with the actual 2019 numbers. That won't be necessary now that the Thompsons' 2018 income will help determine Mark's need-based aid in the 2020-21 school year.

Planning Far Ahead

Under the new FAFSA schedule, planning for college funding should begin much earlier, probably in the ninth or tenth grade. Income from the calendar year that includes the student's sophomore and junior years of high school will be the income that shows up on the first annual FAFSA filing.

Example 2: Mark Thompson, who will start college in the second half of 2020, will be a tenth grader in the first half of 2018, and a high school junior in the second half of the year. The family's income from that year will be the income reported on Mark's first annual FAFSA and, thus, will determine financial aid when Mark goes to college.

Therefore, if Mark's parents are planning actions that would increase income, they might want to do so in 2017, when Mark goes from the ninth to the tenth grade. Such actions could include taking capital gains, taking retirement plan distributions, or converting traditional IRA dollars to a Roth IRA. Acting before January 1 of the sophomore year of high school will keep the resulting income from the FAFSA. Alternatively, such actions might be postponed until January of the student's sophomore year of college, or later, when the income may no longer show up on a FAFSA filing.

Reducing the assets reported on a FAFSA also may increase aid. Parents might fund an IRA in the current year, moving cash into retirement accounts that are not counted in determining the expected family contribution to college costs. IRA contributions for 2018 can be made until April 15, 2019, but contributing in early 2018 can reduce reported assets on a subsequent filing.

In some cases, a business owner might want to consider changing the choice of entity during the FAFSA years. Many small businesses are S corporations, which avoid the corporate income tax. However, an S corporation passes through all income to the company's owner, and a high income could reduce financial aid. With a regular C corporation, the company's income doesn't pass through to the owner. Our office can help you weigh all the pros and cons of C corporation versus S corporation status, including the impact on college aid.

Grandparent Strategy

The new FAFSA schedule also affects planning for 529 college savings plans that are owned by grandparents, with a grandson or granddaughter as the beneficiary. The assets of such a 529 plan are not reported on a FAFSA, so they don't reduce possible financial aid. However, when grandparent-owned 529 plans distribute funds to cover college costs, the payouts count as untaxed income to the student on a FAFSA, which can reduce aid eligibility substantially.

Now, grandparent-owned 529 plans can hold onto their assets until January of the student's sophomore year. Tax-free distributions for educational expenses may be able to begin then without showing up on a FAFSA to affect financial aid.

Trusted Advice

FAFSA Facts

- There is no upper limit on family income to qualify for federal student aid.
- Eligibility for aid is determined by a mathematical formula, not by family income alone. Besides income, many factors (such as family size and parents' age) are taken into account.
- The higher the cost of attendance at the chosen college, the more aid that may be offered.
- Having more than one child in college at the same time will increase the chance for financial aid.
- A student who fills out the FAFSA automatically applies for funds from his or her state as well as from the federal government, and possibly from the school as well.
- Some schools won't consider students for any of their scholarships (including academic scholarships) until they have submitted a FAFSA.