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HOW RELIABLE IS PCS INFORMATION? THE CASE FOR CENTRAL COLLECTION OR ANALYSIS OF TAX RETURNS

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Several years ago the son of a professional man in upper New York state applied to Tufts for admission and aid. He was awarded $1,600 for the first year on a cost of about $4,000. The family's estimated income on the Parents' Confidential Statement (PCS) was $9,800, the same as stated for the two previous years. There were three children with one sibling in college; two grandparents also were taken as dependents. The federal tax reported paid was within 20 percent of standard tax, and the family's assets were not large. The "business" was worth about $6,500, and bank accounts and other investments totaled $6,800.

However, when the application came up for renewal the next year, the financial aids office noticed that both of the other children were now in private colleges and neither was receiving a scholarship or loan. Before the renewal decision was made, a federal tax form certified by the Internal Revenue Service (IRS) was requested from the parents, and the further suggestion made that the parents photostat their own copy and send it to Tufts for tentative evaluation while awaiting the certified IRS report. Apparently the mother immediately photostated a copy without consulting the father and returned it to Tufts.

The parents' own copy showed a yearly income of $34,400 before federal taxes, not $9,800! The tax on this amount was $6,200, rather than the $1,200 reported. Although no income from the $6,800 in bank accounts and investments had been reported on the PCS, the tax return showed $3,500 in dividend income and $3,700 in interest income for that year. Further,

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the tax return indicated that only the three children and the mother were taken as dependents; no grandparents were claimed. Several oil wells and other real estate were among the family's investments; we estimated worth at well over $200,000.

When Tufts asked the father for an explanation, his accountant replied that obviously a mistake had been made in hurriedly filling out the PCS. He offered restitution. We requested return of the $1,600 which was paid at once, probably because the accountant recognized that part of the aid had been in federal funds. Since that time Tufts has been somewhat suspicious of information reported by some families on the PCS, and these suspicions have been confirmed by isolated instances in which we have requested tax returns from those whose taxes varied considerably from the standard tax or whose standard of living seemed higher than warranted by the reported income.

In the spring of 1971, as the result of this accumulated experience, we requested the families of 60 out of 600 aid applicants already in college to provide notarized copies of their 1970 federal tax returns in order to confirm or clarify the information they had just reported on the PCS for the actual year, 1970. This information had been given, I repeat, on the PCS in the spring of 1971 *after* the income for 1970 had been earned. Fifty returns were received and 28 (56 percent) were found to have under-reported 1970 income and assets to Tufts. The largest discrepancies found were a $14,000 income for an EOG recipient's family which had reported $5,600 for two years, and a middle income family with undisclosed stocks and bank accounts of $40,000. The 28 families had under-reported their 1970 incomes on the 1971 PCS by almost $100,000, or an average of $3,500 each. We also discovered that estimated assets for twenty of the families amounted to over $300,000 exclusive of home equity, an average of $15,500 per family that had not been reported.

Let me emphasize that this was a selected sample; tax forms were requested when the College Scholarship Service's analysis showed the tax paid was more than 20 percent higher or lower than standard tax, or the family's reported income or assets were inconsistent with its standard of living. We judged the latter by family cars, children in private schools, and the value of home or other real estate. This selected sample included 40 men and 10 women. Eleven of the 50 were minority students. Family incomes originally reported ranged from $2,000 to $27,000 for 5 freshmen, 30 sophomores, 12 juniors and 13 seniors in the sample.

The 10 students whose families did not return tax forms were not awarded aid. Five of the 10 had not received aid previously. All were at Tufts again last fall.

Unfortunately, under-reporting of incomes and assets seems to be spread across the entire aid population. The problem encompasses wage earners as well as self-employed and business families, minorities and non-minorities in all undergraduate classes, and low, middle and higher income families. Since our 10 percent sample was highly selective, we do not feel that 55 percent of all aid applicants give incorrect information. However, it does seem likely that perhaps 10 to 15 percent of the PCS information we are receiving is unreliable, since such a high percentage of significant error was found. If so, and applying the $1,176 average over-award we derived from this study to 10 to 15 percent of the Tufts recipients last year, we estimate that we probably awarded from $96,000 to $144,000 more than the analysis would have indicated if reliable data had been submitted to the College Scholarship Service (CSS) by the parents.

Keep in mind, this study showed under-reporting of actual year's income, not that for the estimated year. Aid officers frequently judge parental estimates of future income from previous years' actual incomes. The CSS proposal to determine need from the actual year's income in the future should improve the reliability of our data. However, it will not by itself help colleges to judge whether parents are reporting all of their incomes or their assets for any year.

At present, state scholarship agencies in Pennsylvania and New Jersey collect tax returns from the parents of applicants. A number of colleges, including MIT, Amherst, and the Universities of Pennsylvania and Pittsburgh, have requested large samples of tax returns from families of students already in college, but no studies of their experience have been published as yet. At Rutgers, when a financial aid award is made to an entering student, the parents are required to return an IRS waiver form with the acceptance of the aid. On this form, the parents authorize IRS in advance to send the university a copy of their last federal tax return if Rutgers chooses to send the waiver to IRS. The parents also agree to pay $1.00 per page when billed. Awards are changed if the certified tax returns later indicate inaccurate information. However, since awards for this fall will be based upon estimated 1972 income, and the certified tax return will be for 1971, it would seem extremely difficult for an aid officer to justify changing an award already made by a certain number of dollars.

A similar plan for verifying PCS information has been announced this year by some Ivy League colleges who told parents of aid applicants last fall that those who receive awards in April will be asked to furnish a certified copy of their last tax return directly from IRS. Again, since awards go out in April to entering students, based upon estimated 1972 income, a copy of the 1971 tax return received by the college in June, July, or August would make it difficult to justify changing an award except when grossly inaccurate information has been given. It also is a very time-consuming procedure to obtain a certified copy of the tax return directly from IRS, either at the request of the parents, or by a waiver form which is sent to the college. Six to eight weeks is the minimum amount of time required. A favorite ploy of IRS is to send back a form saying that the tax return is out of the files at present; if you really wish a copy, submit another request. If the college requests photostatic copies of the parents' own return, even notarized as true copies of those sent to IRS, there is still a lingering doubt that some individuals may falsify the information sent to the college. The notarization may apply to the authenticity of the signatures, not the truth of the data. Obtaining the family's copy directly from the parents is a quick although not foolproof way to check the actual number of dependents, whether the spouse filed a separate return, the family's assets as judged by the amount of interest and dividends received, the business expenses taken by the family, and such miscellaneous other income as gross rents, business income, annuities, trusts, pensions and alimony. Although I believe a high proportion of families give honest, accurate information on the PCS, my experience with that document in state scholarship programs, with foundations, and in my own office confirms that some provide very bad information indeed. As an aid officer, however, I do not have the staff, the time, or the inclination to ferret out evil wherever found, especially if other institutions are not doing so for mutual applicants for admission and aid.

It is my contention that institutions individually should not find it necessary to ask parents for their tax returns when it is obviously necessary to verify the information which CSS has collected and analyzed for us. It is a CSS responsibility to provide reliable income, asset, and tax information to the colleges. Consider the situation of the parent whose children apply to the state agency in Pennsylvania for a scholarship, a loan, or both, and also apply to four or five colleges, two or three of which request the parent to furnish separate copies of his tax return. A veritable flood of paper ensues. More importantly, from the college's standpoint, no admissions or aid office really wants or dares to bother a student or family with requests for extra forms, especially of such a personal nature, unless other institutions to which the student is applying are doing so. Competition is keen, and will become keener as prices go up. Most important of all, CSS should not provide us with analyses based on unverified and clearly inaccurate data.

I also suggest that it is unfair, and perhaps unethical, for colleges to make an award to a student hurriedly in March or April for fall entrance, and then request the family to supply a federal tax return when renewal of aid is requested the following spring. My own experience over twenty years in admissions and financial aid leads me to the inescapable conclusion that there must be central collection of IRS information in order to verify the statements made by parents on the PCS. If the basic data of the system is not verified as accurate, we can no longer tell the public and Congress that we have a quality product and a quality system of determining the reasonable amounts that parents and students should pay towards the cost of higher education.

Indeed, the question is not whether CSS should collect the verifying information, but who should verify it? At the very minimum, CSS should require the first page of the last federal tax return with the PCS, photostat it, and distribute the same document to each of the institutions named. In this event, it would be up to each aid officer to resolve discrepancies between the PCS and the IRS form, but at least he would know that every other aid office has the same information. We all know it is far easier and less controversial to make an award to an entering student based upon the same PCS and the same verifying information (tax return) in the hands of all the institutions involved than it is to offer aid without knowing whether the other schools have followed up with a tax request. In the former case, the aid officer can obviously use his best judgment; in the latter, if an announced award must be changed upon receipt of an *ex post facto* tax form, the aid officer must justify it in writing. At the very least, such action can lead to much time-consuming correspondence, and at the most, to an extremely disgruntled family who may well feel that they have been shabbily treated.

However, consider the possibilities for central verification of the PCS information by even the first page of the federal tax return. Educational Testing Service (ETS) which processes the PCS could determine the actual number of dependent children and other dependents, as well as the omission of various assets and other income from interest, dividends, rents, and the other types of income previously mentioned. At the minimum, the actual tax paid could be verified or determined more accurately than at present. Central verification would add considerably to the quality of the product sent to the colleges.

How ETS and CSS verify the information about parents' income and assets is their problem, but I think it is a very real and pressing one. Failure to solve it may result in colleges, parents, and Congressmen losing faith in the system. I suggest that at a minimum each institution should receive a photostat of the first page of the parents' last tax return in addition to the PCS, but I would think that even with non-certified tax information received with the PCS, ETS would wish to improve the validity of its own product.

Last year the Eastern Association of Student Financial Aid Administrators asked that CSS require the first page of the last tax return with the Parents' Confidential Statement and send a copy to each institution. We were met with the twin arguments that it would cost too much (up to $800,000) and that the information might not be necessary anyway, particularly for a large number of families and for many low cost institutions. Now ETS is engaged in a study of a sample of 5,000 of their projected 1,000,000 Parents' Confidential Statements this year. CSS is also collecting information about tax return studies made by various institutions. I think that the data, when assembled, will indicate that a portion, perhaps as many as 10 or 15 percent of the Parents' Confidential Statements, show significant under-reporting or omission of income and assets.

Probably inaccurate information is being sent to low as well as middle and high cost colleges from all income groups. A recent tax return at Tufts showed a $4,500 income EOG family with unreported interest of $3,800 and other real estate income of $21,000. The total unreported assets were estimated in excess of $150,000. How many others are beating the system in the same way? The student in question could have been admitted and received aid at almost any institution regardless of its cost.

CSS and ETS should take steps now to prepare for the next processing year. We need to protect those parents who make honest but serious errors on their statements, as well as the institutions and agencies who are consumers of the ETS product and who are being victimized by some dishonest persons who are receiving financial aid funds that might well go to others in need. The CSS Council should place this proposal on its agenda and request the CSS leadership to provide all information available on the problem for action this spring.