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VERIFICATION OF PARENTAL INCOME ESTIMATES BY MEANS OF FEDERAL TAX RETURNS — THE EXPERIENCE AT ONE INSTITUTION

J. Stephen Collins

Introduction

In recent years there has been increased interest among financial aid officers in the possibility of verifying, by some viable means, the parental financial information which is used as the basis of a financial award. Although CSS and ACT provide useful tools by which we are able to measure the expected contribution from parental income and assets, I think each of us has been exposed to enough instances of unintentional or deliberate underestimating of income or other resources that a natural curiosity has developed as to the actual magnitude of this problem. In other words, are we being unnecessarily alarmed by an isolated group of cases or are such cases actually the tip of a much larger iceberg?



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In order to get a clearer picture of the extent to which this problem existed on our own campus, the Boston College Financial Aid Office decided in the spring of 1972 to require a notarized photocopy of the 1971 Federal Tax Return (Form 1040) as part of the upperclass student's application package for the 1972-3 academic year. Later in the year a comparison was made between the *actual* income reported on this 1971 Tax Return and the *estimated* 1971 income reported on the prior year's (1971-2) PCS. The results of this comparison were both surprising and disappointing — surprising in that the number of differences found were so large and disappointing in that the instances of income understatement were much too numerous to be explained away as accidents or unintentional omissions. The remainder of this article is devoted to further details on this research.

Background

Boston College, founded in 1863 by the Jesuit Fathers, is the third largest Catholic university in America with a total student enrollment exceeding 10,000 students and an undergraduate student body of over 7,000, drawn primarily from low and middle income families in the northeastern United States. Like most private schools, B. C. has experienced a great financial strain during the last five to ten years and has been forced to combine increases in tuition and other fees with various cost-cutting efforts in order to maintain fiscal stability and provide for the continued development of the institution.

Financial aid is a critical area which often affects a student's ability to enroll or continue and thus the Financial Aid Office has become a truly vital and visible department in the overall administration of the University. Although federal, state and institutional aid sources are as generous as conditions will allow, there never seem to be enough resources to meet legitimate student demands and consequently the financial aid staff is sincerely interested in maximizing its own ability to provide the most aid to the neediest students.

Our decision to require a notarized copy of the tax return of a dependent student's parent or of an independent student was not unlike decisions made in other financial aid offices in New England and throughout the country and, in our own case at least, this decision was met with almost complete parental and student cooperation. In fact, parents in particular often expressed satisfaction that this new requirement had been instituted since they felt it afforded them a more sound and fair basis on which to compete with other parents for limited funds.

Methodology

Boston College's financial aid record-keeping is done with the assistance of an IBM 370 computer presided over by the personnel of the B. C. Computer Center who have worked diligently with our staff over a two-year period to develop an efficient and workable financial aid system. This system, which also generates award letters from information received via a hand-coded in-

put form, is part of the larger student record system which stores biographical, academic and other related information on all B. C. students.

The financial aid component of the system began to take shape in the winter of 1972 and by the end of the 1971-2 academic year, records on all upperclass students who received aid were made part of the system. In addition to basic biographical information such as Social Security Number, school and year; each student's record included income, parents' contribution, need and the amount and type of aid awarded.

After the decision was made to require that the 1971 Form 1040 be filed by all upperclass applicants for 1972-3, two income figures were computerized on the 1972-3 student record, the 1972 estimated income from the 1972-3 PCS (on which the aid for 1972-3 was usually based) and the 1971 actual income figure as reported on the 1971 tax return. Then, with the assistance of Mr. Bernard Gleason of the B. C. Computer Center, a special program was written which compared this latter income figure with the 1971 estimated income reported on the prior year's PCS and used as the primary element in making the 1971-2 award. In brief, the program generated a printout which showed the student's name, both income figures, and the positive or negative difference between these incomes. In addition, the differences were further sorted into one of seven columns on the printout according to a pre-determined actual income range. A summary of the final results of this data analysis is shown in *Table A*.

In order to maximize the number of cases which could be analyzed according to the above method, no analysis was done until mid-spring 1973 after a sufficient amount of time had been allowed for delayed receipt of the 1040 Form, students who filed late for 1972-3 second semester consideration and similar situations. The number of financial aid applicants at Boston College is well over 4,000 annually but, as can be seen in *Table A*, the study was limited to 1,202 actual comparisons. Among the reasons for this is the fact that some students filed a PCS for 1971-2 and an SFS for 1972-3, thus preventing any valid comparison of data. In addition, many students were not in attendance or did not apply for aid for both years. Finally, freshman financial aid is awarded and processed by the Boston College Admissions Office but the record-keeping system used for freshmen in 1971-2 did not include the type of information required for comparative analysis one year later. Let us now take a more detailed look at the results.

Results

The "Total" column in *Table A* shows that actual income exceeded estimated income by a rather staggering \$1.7 million for the 1,202 cases studied, with an average difference of \$1,490. It is in the breakdown by actual income range, though, that the results were even more interesting. In the \$0-5,999 range, for example, *estimated* income exceeded actual income on the average and, while this may initially seem to be somewhat unusual, there are at least two possible explanations. First, there appears to be an occasional tendency among low-income parents to be overly optimistic about their future

TABLE A
Differences Between 1971 Actual and 1971 Estimated Parental Income at Various Income Ranges

	Income Range						Total
	\$0-5,999	\$6,000-8,999	\$9,000-11,999	\$12,000-17,999	\$18,000-24,999	\$25,000-34,999	
Dollar Difference: Actual income over (under) estimated income	(\$50,651)	\$4,708	\$225,466	\$883,813	\$491,783	\$207,237	\$29,080
Number of cases	181	182	219	418	150	48	4
Average difference	(\$280)	\$ 26	\$ 1,030	\$ 2,114	\$ 3,279	\$ 4,317	\$ 7,270

TABLE B
Breakdown of Cases in Which Actual Income Exceeded Estimated Income, By Range of Difference at Various Income Ranges.

Range of Difference	Income Range						Total
	\$0-5,999	\$6,000-8,999	\$9,000-11,999	\$12,000-17,999	\$18,000-24,999	\$25,000-34,999	
\$ 0-999	58	54	63	85	21	6	287
1,000-2,999	21	33	77	173	52	16	373
3,000-4,999	2	5	22	73	34	12	149
5,000-7,999	-	1	2	43	25	7	78
8,000-9,999	-	-	1	-	8	-	9
10,000-12,999	-	-	-	-	2	2	6
13,000-16,999	-	-	-	-	-	4	4
Number of cases	81	93	165	374	142	47	906
Total number of cases - Table A	181	182	219	418	150	48	1,202
Percentage	45%	51%	75%	89%	95%	98%	100%

income possibilities with the result that the PCS may contain a financial hope or expectation which later goes unfulfilled. More importantly, however, low-income families often supplement taxable income with such other non-taxable sources as Social Security, certain pensions, veteran's benefits and welfare and thus the PCS income figure may quite legitimately exceed the taxable figure reported on the 1040 Form.

In all the other income ranges, actual income exceeded the PCS estimate and the differences ranged from a negligible \$26 at the \$6,000-8,999 range to an imposing \$7,270 at the \$35,000-and-over range, although only four cases were involved in this latter category. Most of the cases and most of the dollar differences were located in the three ranges between \$9,000 and \$24,999 with particularly heavy activity in the \$12,000-\$17,999 range — 418 cases generating a difference of \$883,813 and an average difference of slightly over \$2,100 in income. It is precisely in this middle-income range that a financial aid officer might expect to have the most problem with accurate reporting of income because students from such families — beyond the range of federal and many state grants and competing for limited institutional funds or federal loans — often have the most difficult time financing their education, particularly at a private college or university.

This is not meant to imply, of course, that every case in the analysis involved parental deceit. On the contrary, there are many perfectly legitimate reasons why a prior year's estimate may have been too low, and I think we are all familiar enough with the mother who decides to work, the father who works more overtime than anticipated, the change in job, or the unexpected year-end bonus to realize that such possibilities are often difficult to predict. I am suggesting, however, that the possible explanations cited above could not begin to explain the number and magnitude of the differences found in this study and that we do indeed seem to be faced with a serious problem in the equitable administration of financial aid unless we continue (or start) to verify income.

Another approach to the situation is shown in *Table B* which charts *only* the cases in which actual income exceeded estimated income, breaking down these differences into several ranges and again sorting them by actual income range.

As illustrated in *Table B*, 906 out of the 1,202 total cases involved an underestimation of income on the PCS as compared to the tax return with the majority of these differences ranging between \$1,000 & \$4,999, amounts which certainly have an effect on most parent's contribution computations. Furthermore, an increasingly larger proportion of "actual-over-estimated" cases to total cases emerged as the income ranges increased and this fact is shown on the last three lines of *Table B*. Both of the above statistics, taken together, seem to clearly support the earlier conclusion that underestimation of PCS income is a more serious problem as family income rises, that the middle-income ranges are particularly susceptible to this problem, and that the dollar value of this underestimation within these ranges is by no means insignificant.

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Summary and Conclusion

In conclusion, it is clear that the research reported above was most beneficial to this institution. It showed us that underestimation of income is a serious problem at nearly all levels, but particularly in the middle-income ranges where competition for aid is keenest. It convinced us that requiring a copy of the tax return is a necessity over at least the short run, whether this data is collected centrally by an organization such as CSS or locally at the institutional level. Finally, it pleased us to know that we were at last in a position to award aid on the most equitable grounds possible and to know that such awards were based on an analysis well-butressed by accurate information on income. We have acquired and will continue to acquire similar data on 1973-4 applicants and we will undoubtedly do a similar data analysis this coming spring. The intuitive feeling at this time from the Financial Aid Office and the Admissions Office, which is now requiring the 1040 Form from all freshman applicants, is that the problem has been checked but certainly not eliminated.

While we feel that our conclusions more or less speak for themselves, it would be interesting to compare our findings with similar efforts at other institutions. Also, further research might be profitable in at least two related areas. First, the effect which income has on parents' contribution is obvious, but it would also be helpful to know what effect such parents' contribution changes had on *actual aid awarded*, particularly at an institution which is not able to meet a student's full need in the first place. Lack of time prevented our staff from making such a study here. Secondly, liquid assets such as bank accounts or investments reported on the PCS were often changed by our staff on the basis of interest, dividend, or other income reported on the 1040 Form. There was no question that asset understatement was also a potentially serious problem among our applicants but again no attempt was made to quantify such differences by a method similar to that used for income. Perhaps these or other areas have been or will be explored by other financial aid offices that share our interest in relatively simple internal research which can often make a great contribution to more equitable and efficient management.