



PROFESSIONAL JUDGMENT

TOPIC: Income Losses from Business

IM STANDARD TREATMENT

The IM standard treatment is to disallow (add back) business losses.

FM STANDARD TREATMENT

Adjusted gross income (AGI) is used in the standard FM computation. Therefore, any Schedule C business losses are allowed to offset income.

WHY PROFESSIONAL JUDGMENT MIGHT BE APPROPRIATE

Tax laws allow business losses reported on IRS Form 1040 Schedule C to be reported as income losses on page one of the 1040, reducing adjusted gross income and lowering calculated parent contributions. Reported losses are often not the result of a "real" income reduction to the family. For example, depreciation of business assets and property do not affect the family income. As a result, the standard IM does not allow such losses to offset other forms of income. However, there may be situations where losses are real and should be allowed to reduce family income. For example, a Schedule C reporting a high "cost of goods sold" figure might suggest to an aid administrator that a reported business loss would be a legitimate offset to income.

A review of Schedule C (and Schedule E, F, 1065 and 1120) may also reveal the type of business and allow the aid administrator to determine if the business value and debt reported in the asset section appears to be reasonable. For example, significant depreciation and/or interest expenses may suggest the existence of equipment, machinery, real estate, or inventories.

HOW IM COULD BE ADJUSTED

The aid administrator may wish to allow certain business losses on a case-by-case basis. Allowable losses would not be added back to the adjusted gross income.

HOW FM COULD BE ADJUSTED

Since the FM uses AGI as its measure of taxable income, an adjustment to zero out losses should probably not be made when determining eligibility for federal aid.

HOW COLLEGE BOARD SERVICES SUPPORT PJ

CSS/Financial Aid PROFILE

The PROFILE Application collects both the parents' AGI and a breakdown of the AGI (PI-100 – PI-130). Review of this section of the application permits the aid administrator to identify cases where significant losses have been reported, and to determine whether to require a complete copy of the parents' 1040.

Information for each business the parents own, including value, debt, gross receipts and gross expenses, may be found in Section BA

College Board IM Options

An institution using software that utilizes the College Board's IM may establish a global parameter to allow losses reported on the PROFILE Application.

DOCUMENTATION

All changes should be documented.

The aid administrator may want to collect:

- An IRS form 1040 with Schedule C (and, if applicable Schedules E, F, 1065 and 1120)
- If allowable business losses reduce adjusted gross income to a level where meeting basic family financial needs seems difficult, reviewing a monthly income and expense balance sheet from the family might be necessary.