



## **PROFESSIONAL JUDGMENT**

### **TOPIC: Rental Income and Losses**

#### **IM STANDARD TREATMENT**

IM standard treatment is to disallow income losses reported on the PROFILE Application. Since categories of income and losses are grouped together on the application, it is not possible to separate rental losses from other income and losses in the methodology.

#### **FM STANDARD TREATMENT**

The FM standard treatment is to use the adjusted gross income (AGI) from a federal tax return in the income computation. Therefore, Schedule E rental losses reflected in the AGI are allowed to offset other income.

#### **WHY PROFESSIONAL JUDGMENT MIGHT BE APPROPRIATE**

Tax law allows losses reported on IRS Form 1040 Schedule E to reduce other family income. Many times the loss from rental property is only a “paper” loss, since owners of rental property are permitted to depreciate their property, reducing their rental income. As a result, the standard IM does not allow such losses. However, there may be cases where properties remain vacant for a period of time and the owner incurs real expenses—mortgage, utilities, property taxes, etc. In such cases, the aid administrator may wish to allow the family’s losses related to rental property.

#### **HOW IM COULD BE ADJUSTED**

The aid administrator may elect to allow all rental losses or to allow such losses on a case-by-case basis. By reviewing Schedule E, the aid administrator can determine which expenses relate to real costs borne by the family and which do not. For example, depreciation might be disallowed, since this represents a tax benefit for the family investment without a corresponding cash expense. If the mortgage interest and taxes paid exceed the rental income, it may be appropriate to allow a loss only to the extent that those expenses result in a loss. Schedule E may also help the aid administrator determine if the other real estate value and debt reported in the asset section appears reasonable.

#### **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.

## **HOW COLLEGE BOARD SERVICES SUPPORT PJ**

### **CSS/Financial Aid PROFILE**

The PROFILE Application captures income and losses from business, farm, rents, royalties, partnerships, estates, trusts, etc. in question PI-120. Information about the value and debts associated with parents' other real estate, including rental property, as well as the year the property was purchased and the purchase price are collected in PA-180 – PA-195.

Institutions may select Supplemental Question 111, which asks parents to write the number of properties, other than their home, that they own, and to provide details about the value, amount owed, purchase year, and purchase price for each.

Institutions may select the option on the PROFILE Service Options Form that allows parents' business/farm or other income losses to reduce income in the computation.

### **College Board IM Options**

An institution using software that utilizes the College Board's IM may select a global adjustment in INAS to allow business and other income losses to reduce income. This global option can be overridden for individual students

## **DOCUMENTATION**

All changes should be documented.

The aid administrator may want to collect:

- The complete federal tax return for the base year, including all Schedules E
- A detailed description of the family's real estate holdings, including date of purchase, price of purchase, current market value, and explanation of all debts (mortgage statements, etc.).
- If rental losses reduce AGI 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.