

Treatment of Military Pay and Benefits in Completing the FAFSA

Reporting military pay on the *Free Application for Federal Student Aid* (FAFSA) has become an area of confusion for many student applicants. And, for the 2006-07 FAFSA, a reference to combat pay has been added as an example of the type of earnings from work that should be reported on the FAFSA. As a result, the U.S. Department of Education has provided some clarification on the reporting rules for military pay and benefits.

Different reporting rules apply depending on whether the individual is a federal tax filer or a non-tax filer.

Reporting Military Pay

- For Non-Tax Filers:
 - The full amount of combat pay should be reported only as income earned from work.
 - None of the combat pay should be reported on FAFSA Worksheet B; otherwise, the need analysis formula will double-count the combat pay in the calculation of the student's expected family contribution (EFC).
- For Tax Filers:
 - If all of the combat pay is nontaxable, the full amount should be reported both as income earned from work and on Worksheet B.
 - If all of the combat pay is taxable, the full amount should be reported only as income earned from work.
 - If the combat pay is partially taxed, the full amount of the combat pay should be reported as income earned from work, and only the nontaxable portion should be reported on Worksheet B.

What Income Information from the Federal Form W-2 is Reported on the FAFSA?

The federal form W-2 includes both taxable and nontaxable military earning in boxes 1, 3 and 5. The total amount from boxes 3 and 5 should be reported both as income earned from work (FAFSA questions 38/39 for student/spouse; 76/77 for parents) and as untaxed income on Worksheet B.

Military pay is categorized as basic pay or special pay.

- Special pay is typically in addition to basic pay and is often paid for combat service, hazardous duty, and the like. Special pay is exempt from federal income taxation.
- Basic pay is generally subject to federal income taxation; however, basic pay for combat service, hazardous duty, etc., is exempt from federal income taxation. Such compensation is not exempt from FICA taxation. For a single taxpayer, box 1 is zero but boxes 3 and 5 are not.

Reporting the total amount of boxes 3 and 5 as both income earned from work and untaxed income is not double-counting that income in the need analysis. For a tax filer, the income used in the need analysis formula is the total of adjusted gross income (AGI) and untaxed income; income earned from work is used only to generate certain allowances against income, such as FICA taxes. For a nonfiler, the income used in the formula is the total of income earned from work and untaxed income. Following this guidance would not result in any double counting, but would ensure that the applicant receives accurate allowances against income.

Clearly, the total amount of boxes 3 and 5 is income, so it must be accounted for in the need analysis. Also, it is illogical to have income from work (boxes 3 and 5) but to have no income for need analysis purposes. There was in fact income, so it must be captured for the need analysis.

Reporting Military Housing Allowance

Military housing allowance is not typically considered "earnings" for Title IV purposes; therefore, it is reported only as untaxed income on Worksheet B. The military housing allowance is considered an untaxed "benefit" of military service rather than as earnings. It does not appear in boxes 1, 3, or 5 on the form W-2 and, while it sometimes appears in boxes 12 and/or 14, it is not required to be reported on the form W-2 under IRS rules. This is why it is to be reported on the FAFSA Worksheet B.

For further assistance about reporting military pay and benefits (Combat Pay) on the FAFSA, contact the [Federal Student Aid Information Center \(FSAIC\)](#) at the phone numbers below. Spanish speaking representatives are available.

- 1.800.4.FED.AID (1.800.433.3243); or
- 1.800.730.8913 (TTY) – for hearing impaired.