Direct Cash Transfers and Postsecondary Financial Aid

The Implications of Direct Cash Transfers on Postsecondary Financial Aid and Pell Grants

Daniel T. Barkowitz[1] | November 2022

Young adulthood is a highly formative period for socio-emotional development (Roberts and Davis, 2016; Casey et al., 2019) and attaining critical skills, education, and experiences that foster positive, healthy, and productive transitions to adulthood. For young people experiencing homelessness, though, this significant developmental stage is spent focusing on surviving and coping through associated trauma and adversity. Research shows significantly lower levels of education and training enrollment, attainment, and achievement among youth and young adults experiencing homelessness compared to stably housed peers (Chassman et al., 2020). Qualitative evidence underscores how housing instability is one of the main barriers to young people's ability to pursue and progress in education and training (Kull et al., 2019).

Unconditional direct cash transfers are a promising solution to support young people 18 to 24 years old experiencing or at risk for homelessness in exiting homelessness and making investments in themselves. They enable a nonpaternalistic pathway to stability, giving many young people the capacity to begin making direct investments in their education and skills. Recognizing each young person's pathway will look different; young people choosing to pursue a postsecondary degree or certificate are faced with the rising costs of college and career and technical education. Federal, state, and institutional financial aid will be an important resource for the success of students who have experienced homelessness. As this paper highlights, unconditional direct cash transfers in the form of a gift delivered during or after 2022 will not count against federal financial aid. The change in the FAFSA ultimately minimizes the risk of young people losing access to an important resource to bolster their success in pursuing a post-secondary degree or certificate.

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State and institutional financial aid programs may consider direct cash transfers to be nontaxable income.

HIGHLIGHTS:

- Beginning with the 2024–25 academic year, unconditional direct cash transfers (DCTs) will no longer be reportable income on the Free Application for Federal Student Aid (FAFSA)[2] and therefore will not be considered when reviewing Federal financial aid applications. DCTs received during the 2022 tax year and after will be able to take advantage of this new exclusion.
- State and institutional financial aid programs may consider DCT income to be nontaxable income.
- The taxability of DCTs is a major determinant of their inclusion or exclusion from financial aid analysis. If DCT income is considered taxable income for a recipient, then there could be significant impact on financial aid.
- DCT programs that require postsecondary enrollment are considered to be a financial aid award. They reduce other access to financial aid on a dollar-for-dollar basis.

ABSTRACT

Direct cash transfer (DCT) programs offer tremendous promise to change the lived experience of homeless unsupported youth. The youth recipients of these cash gift may encounter unexpected consequences when and if they apply for Federal, State, or Institutional financial aid while attending postsecondary institutions (colleges and universities). This paper examines the following issues germane to this population: the determination of dependency status; the difference in how the needs analysis system treats as income DCTs received after 2021 and those received in 2021 and earlier; the minimal impact on Pell Grant eligibility for students receiving DCTs in 2022 and after; and the possible impact on state, institutional, and private grants and scholarships. The paper will attempt to analyze these questions. It will offer design considerations for policymakers to lessen any potential negative impacts to financial aid receipt on youth recipients.

[2] As long as so determined by the IRS to be nontaxable. Current guidance and precedent (see PAPER) would indicate that Direct Cash Transfers distributed out of detached and disinterested generosity, intended to serve a charitable purpose and not as compensation for services rendered by the recipient, should not constitute taxable income.

Acronyms and Abbreviations

AGI	Adjusted Gross Income
CRRSA	Coronavirus Response and Relief Supplemental Appropriations
DCT	Direct Cash Transfer
EFC	Expected Family Contribution
FAA	Financial Aid Administrator
FAFSA	Free Application for Federal Student Aid
FM	Federal Methodology
FICA	Federal Insurance Contributions Act
IPA	Income Protection Allowance
SAI	Student Aid Index
SEOG	Federal Supplemental Educational Opportunity Grant
SNAP	Supplemental Nutrition Assistance Program
TANF	Temporary Assistance for Needy Families
TAY	Transition Age Youth
U.S. HUD	United States Department of Housing and Urban Development
WIC	Special Supplemental Nutrition Program for Women, Infants, and Children

BACKGROUND

Federal financial aid programs (including grants, scholarships, and work-study) were established by Title IV of the Higher Education Act, as amended (1965). These programs are governed by regulations enacted by the Department of Education's Federal Student Aid division (FSA) and largely contained in the annual Federal Student Aid Handbook.[3] In order to apply for federal (and most state and institutional) financial aid, students must complete the Free Application for Federal Student Aid (FAFSA) each year they plan to attend an institution of higher education.[4]

The FAFSA application period begins on October 1 of the year preceding the enrollment academic year (for example, October 1, 2023 for the 2024–25 academic year). When completing the FAFSA, a student is asked to provide income information for the last completed tax year prior to the opening application date (in the case of the 2024–25 academic year, 2022 tax information would be provided); this income is often referred to as "prior-prior year" income since it is 2 years removed from the start of the academic year (see Figure 1).[5]

[3] The Federal Student Aid Handbook is released annually. The most recent version can be found at https://fsapartners.ed.gov/knowledge-center/fsa-handbook

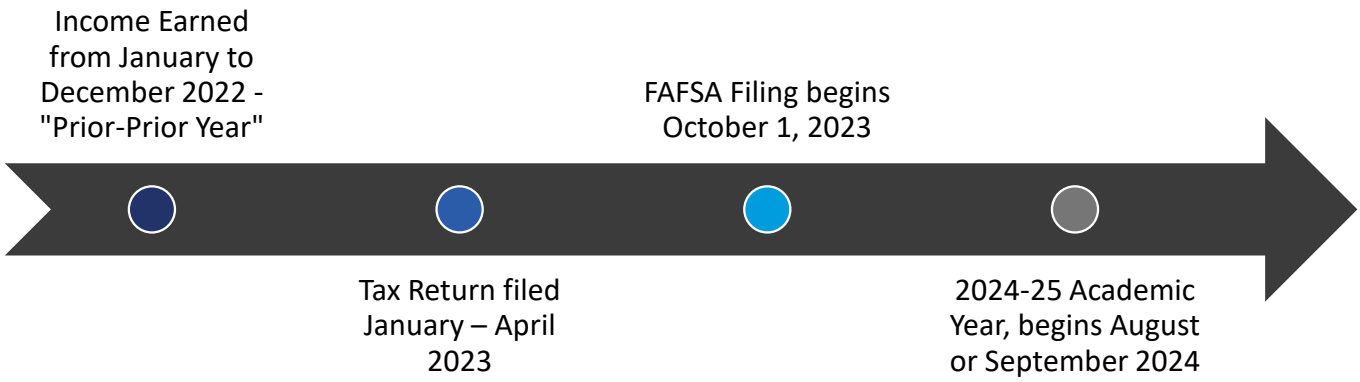
[4] The pdf version of the 2022-23 FAFSA may be found at https://studentaid.gov/sites/default/files/2022-23-fafsa.pdf. Most student applicants will complete the electronic version of the form (or the mobile version). The electronic version can be found at https://studentaid.gov/h/apply-for-aid/fafsa and the mobile version can be accessed using the MyStudentAid mobile app (https://studentaid.gov/mystudentaid-mobile-app).

[5] Income as defined by the FAFSA application includes both taxable and specific types of non-taxable income. See the *2022-23 Federal Student Aid Handbook, Application and Verification Guide*, Chapter 2 Filling Out the FAFSA, Steps Two and Four: Income and Assets (https://fsapartners.ed.gov/knowledge-center/fsa-handbook/2022-2023/application-and-verification-guide/ch2-filling-out-fafsa).

OVERVIEW OF POST-SECONDARY FINANCIAL AID AND CASH TRANSFERS

Household, dependency, and asset information is provided as of the date of the filing of the FAFSA. When a student has completed their FAFSA, FSA calculates the family's provided information and determines an Expected Family Contribution (EFC).[6] This EFC is currently used to determine the amount of the Federal Pell Grant (starting in 2024–25, the EFC will be replaced by a Student Aid Index [SAI]). The EFC is also used in determining financial need for other need-based grants, scholarships, loans, and work programs. Federal Pell Grants are dependent on enrollment level. Students who enroll full time receive the full amount of the Pell Grant, those who enroll three-quarters time, half time, or less than half time receive three-fourths, half, or one-quarter of the Pell award per semester.[7] Starting in academic year 2024–25, Pell Grant awards will be determined by prorating the semester amount by the number of credits a student is attempting against full-time status (12 credits). The number of credits will be rounded to the nearest whole number (for example, a student attempting 10 credits would be eligible for 10/12, or 83%, of a full-time award; Congressional Research Service, 2022).

Figure 1. Academic Year, FAFSA Filing, and Prior-Prior Year



Recent program design has focused on direct cash transfer programs for transition-age youth (TAY) and youth experiencing homelessness. Those programs currently operating or in the pilot phase (as well as newly created programs) will have their first disbursements to individuals during or after the 2022 tax year. The remainder of this paper will focus on the impacts of the newly changed financial aid methodology, which begins in the 2024–25 academic year. Income received by students in 2022 will be used as the basis for the financial aid analysis, and therefore any income received from DCTs will be ignored for determination of a student's Pell Grant beginning in 2024-25 and forward.

[6] For review of the process by which students apply using the FAFSA, the calculation of the EFC, and special cases, read the Application and Verification Guide, which is part of the Federal Student Aid Handbook (https://fsapartners.ed.gov/knowledge-center/fsa-handbook/2022-2023/application-and-verification-guide).

[7] See *2021–2022 Federal Student Aid Handbook, Volume 3 Calculating Awards and Packaging*, Chapter 3 Calculating Pell and Iraq and Afghanistan Service Grant Awards (https://fsapartners.ed.gov/knowledge-center/fsa-handbook/2021-2022/vol3/ch3-calculating-pell-and-iraq-afghanistan-service-grant-awards).

DEPENDENCY STATUS

In assessing eligibility for student financial aid, the first step is to determine whether a student is dependent or independent (their dependency status). The dependency status, which can either be dependent or independent, is not related to the tax status of the individual (whether they can claim themselves on a tax return) and is instead based on a set of regulated criteria. These criteria determine whether a student may apply for financial aid on their own without parental information (as independent) or must include parental income and assets to determine eligibility (as a dependent student). The ten questions asked on the FAFSA can be found in Figure 2. Note that if parents refuse to complete a FAFSA or income self-sufficiency, students cannot still demonstrate independence.

Figure 2. Questions Used on the FAFSA to Determine Dependency Status[a]

All applicants for federal student aid are considered either "independent" or "dependent."

INDEPENDENT STUDENT

If you answer **YES** to ANY of these questions, then you may be an independent student. You may not be required to provide parental information on your *Free Application for Federal Student Aid* (FAFSA) form.

DEPENDENT STUDENT*

If you answer **NO** to ALL of these questions, then you may be considered a dependent student and may be required to provide your parents' financial information when completing the FAFSA form.

1. Will you be 24 or older by Jan. 1 of the school year for which you are applying for financial aid? For example, if you plan to start school in August 2023 for the 2023–24 school year, will you be 24 by Jan. 1, 2023 (i.e., were you born before Jan. 1, 2000)?
2. Are you married or separated but not divorced?
3. Will you be working toward a master's or doctorate degree (such as M.A., MBA, M.D., J.D., Ph.D., Ed.D., etc.)?
4. Do you have children who receive more than half of their support from you?
5. Do you have dependents (other than children or a spouse) who live with you and receive more than half of their support from you?
6. Are you currently serving on active duty in the U.S. armed forces for purposes other than training?
7. Are you a veteran of the U.S. armed forces?
8. At any time since you turned age 13, were both of your parents deceased, were you in foster care, or were you a ward or dependent of the court?
9. Are you an emancipated minor or are you in a legal guardianship as determined by a court?
10. Are you an unaccompanied youth who is homeless or self-supporting and at risk of being homeless?

**If you don't answer "yes" to any of the questions above, you're still considered a dependent student for purposes of applying for federal student aid even if you don't live with your parents, are not claimed by your parents on their tax forms, or are paying for your own bills and educational expenses.*

[a] Image from the Dependency Status web page of the Federal Student Aid website: https://studentaid.gov/apply-for-aid/fafsa/filling-out/dependency

The FAFSA Simplification Act of 2021 removed several questions about nontaxable income from the FAFSA, including the question regarding cash support. Therefore, DCT gift income will no longer be reportable on the FAFSA starting with the 2024-25 academic year.

It is anticipated that most of the young adults receiving DCTs through programs for youth experiencing homelessness or transition-aged youth will younger than 24 years old as of January 1 of the academic year in which they receive aid. Therefore, they will not automatically be independent due to age. Many of these young people, however, will qualify under the allowance for unaccompanied youth who are homeless or are self-supporting and at risk of homelessness. This determination can be made by: 1) a school district homeless liaison; 2) a director (or designee) of an emergency shelter or transitional housing program funded by U.S. HUD; 3) a director (or designee) of a runway or homeless youth basic center or transitional living program; or 4) a financial aid administrator (FAA; see Federal Student Aid, 2022, Chapter 2). If an FAA determines a student to be considered homeless or at risk of homelessness, this determination must be documented. Acceptable documentation could include letters from the student or a third party, or notes from a conversation with the student. The determination must be made on a case-by-case basis, must be made each year that a student is in school, and must use the definition of homelessness as lacking "fixed, regular, and adequate housing" (Federal Student Aid, 2022, Chapter 5). Students who are 22 or 23 years old, though not identified as "youth" by the McKinney-Vento Act, may also answer "yes" to the FAFSA question related to homelessness if they too lack fixed, regular, and adequate housing (Federal Student Aid, 2022, Chapter 2).

Other conditions which may apply to youth receiving DCTs include having been in foster care, having a legal guardian, or providing more than half of the support for a dependent (either a child or another dependent). If an eligible young adult is pregnant and expecting the child during the academic year, that child may be claimed as grounds for documenting independence (as long as the young adult plans to provide more than 50% of the child's support; Federal Student Aid, 2022, Chapter 2).

The determination of "more than half of the support" is left up to the FAFSA applicant; however, guidelines are provided. If more than half of the financial support is coming from a student's parent (directly or indirectly) then the student must answer "no" to the question regarding the support of a child or dependent. If financial support is received from any source other than the student's parents (for example, SNAP, Medicare, or WIC), the student may count this as part of their own support of their child. This means a student could provide more than half of the support to a child purely through public benefits (or DCT grants) and still answer "yes" to the question regarding the support of a child or other dependent (Federal Student Aid, 2022, Chapter 2).

In some cases, it is possible that a DCT recipient will not qualify under any of the above requirements but may still be considered independent from their parents. Especially in cases of abuse or neglect, an applicant may request a dependency override from an FAA and the FAA may declare an otherwise dependent applicant to be independent. This judgment must be made on a case-by-case basis and must be determined annually. None of the following conditions on their own rise to the level of unusual circumstances (although they may be indications of other underlying issues): the parents refuse to contribute to the student's education; parents will not provide information for the FAFSA or for verification of income, the

parents do not claim the student as a dependent for income tax purposes, or the student demonstrates total self-sufficiency. Unusual circumstances may include (but are not limited to) abandonment by parents, abuse or neglect, or the inability to locate parents. Third-party documentation (potentially from a runaway and homeless youth drop-in center or a case manager) is likely to be required by the FAA to support the determination in almost all cases. One school can use another school's determination within an academic year, but the status must be confirmed, and a dependency override must be performed each year (Federal Student Aid, 2022, Chapter 5). Starting in academic year 2024–25, this determination will only need to be made one time during a student's enrollment at each institution; the student will no longer be required to document their independence annually (Congressional Research Service, 2022, p. 20).

INCOME REPORTING AND NEEDS ANALYSIS

The process of determining a student's eligibility for financial aid begins with the determination of a family's ability to pay for college costs. The formula used to make this determination is called the Federal Methodology (FM), the process is referred to as "needs analysis," and the outcome of the formula is referred to as the EFC (Expected Family Contribution). (The formula can be found in the Student Aid Handbook, Application and Verification Guide, Chapter 3.) The EFC is used as an index to determine the amount of the Federal Pell Grant and is also considered a source of support when putting together a combination of financial aid funds for a student. Other need-based funds (federal, institutional, state, or private) are impacted by an increase in the EFC, as is the Federal Pell Grant. Therefore, any increase in the student's EFC could mean a corresponding potential decrease in other need-based financial aid fund offers. Beginning in 2024–25, the EFC will be replaced by the Student Aid Index (SAI). While there are some important changes in the determination method for the SAI, in large part the purpose and use of the SAI remains the same as the EFC (Congressional Research Service, 2022).

Income required to be reported on the FAFSA includes both taxable and nontaxable sources. Some types of nontaxable income are not reported or included on the FAFSA, such as untaxed social security benefits, welfare benefits (including Medicaid, SNAP, and TANF), and earned income or child tax credits. Gifts, however, including unconditional DCTs[8] would be reported as untaxed income on the current version of the FAFSA (this only applies through the academic year of 2023–24). One question on the FAFSA (only asked of students, not of parents) specifically relates to this type of income: "The student reports any cash support he or she received. Cash support includes money, gifts, housing, food, clothing, car payments or expenses, medical and dental care, college costs, and money paid to someone else or paid for on his or her behalf." However, as stated above, income is always reported on a prior-prior year basis. As such, for a student enrolling in 2023–24, the only DCT income which would be reportable on the FAFSA would be any income received in the tax year 2021 (January 1, 2021 to December 31, 2021; Federal Student Aid, 2022, Chapter 3).

The FAFSA Simplification Act of 2021 removed several questions about nontaxable income from the FAFSA, including the question regarding cash support.[9] Therefore, DCT income will no longer be reportable on the FAFSA starting with the

[8] As of the publication date of this paper, unconditional Direct Cash Transfers were considered a gift and therefore not subject to Federal Income Taxes. See the paper on tax treatment of DCTs in the toolkit.

[9] "Due to the multifaceted nature of many of the factors and the incremental nature of some of the changes, it is difficult to calculate exactly how many factors were eliminated. For example, the FSA amendments eliminates HEA Section 480(b), which includes a provision for 'any other untaxed income and benefits' that provides four examples of income that could be considered under this provision and then explicitly excludes six other forms of untaxed income. Another example of complexity is that the HEA prior to the enactment of the FSA amendments included tax-deferred contributions to retirement accounts as untaxed income and the FSA amendments retain some, but not all, of these contributions as untaxed income." Congressional Research Service, The FAFSA Simplification Act, https://crsreports.congress.gov/product/pdf/R/R46909, pages 5-6 and footnote 23.

2024-25 academic year. As students will report 2022 income on the 2024–25 FAFSA, any DCT payments made in the 2022 tax year and later will not be included as income for needs analysis.[10]

DETERMINATION OF PELL GRANT AWARD

Under the FAFSA Simplification Act, the Pell Grant amount a student will receive will be determined based on a combination of factors: the family size, dependency status, the family total income, the current federal poverty guidelines, and the SAI. Under the new rules, a student will first be considered for a maximum or minimum Pell Grant guarantee. This determination will be made using the Adjusted Gross Income (AGI) of the student (if independent) or parent (if still a dependent). If an independent student or dependent parent is not required to file a federal tax return, the student will automatically receive the maximum Pell Grant award (for 2022–23, the maximum is $6,895 for 9-month full-time enrollment). For those who file a federal tax return, the maximum and minimum guarantees will compare the income reported against a percentage of the annual federal poverty guidelines (see Figure 3; Congressional Research Service, 2022, pp. 13–14).

As the federal poverty guidelines are determined by the size of the household, the income used in the calculation will be based on household size.[11] For example, an independent single student without dependents would receive the maximum Pell Grant if their taxable income (AGI) is $22,540 or lower.[12]. The same student would be guaranteed a minimum Pell award as long as their AGI is equal to or less than $35,420.[13] As DCT income is not included in the AGI since it is nontaxable, this income has no impact on this maximum award calculation.

Students who qualify for a guaranteed minimum Pell award may receive a higher Pell Grant award if their calculated SAI when subtracted from the maximum Pell Grant award for the year provides a higher value. Other students whose income as compared to the poverty guidelines do not qualify for the minimum Pell Grant may also receive a Pell award if the total maximum Pell Grant minus their SAI is a number greater than zero and their SAI is equal to or less than 90% of the maximum Pell Grant level (Congressional Research Service, 2022, p. 14).

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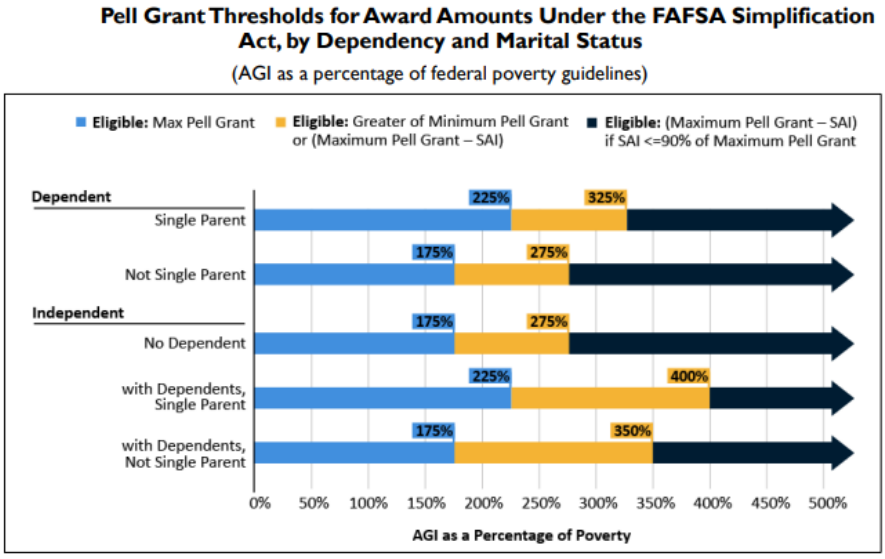
[10] "Among the forms of untaxed income that will no longer be considered are 'cash support or any money paid on the student's behalf.' Prior to the FSA taking effect, this form of untaxed income (which excludes support from dependent students' parents) meant that the EFC considered support from individuals who are not required to report information on the FAFSA, such as contributions from grandparents." Congressional Research Service, The FAFSA Simplification Act, https://crsreports.congress.gov/product/pdf/R/R46909, page 6.

[11] See the 2021 Federal Poverty Guidelines at https://aspe.hhs.gov/topics/poverty-economic-mobility/poverty-guidelines/prior-hhs-poverty-guidelines-federal-register-references/2021-poverty-guidelines#guidelines.

[12] Using the 2021 poverty guidelines, the maximum is determined as 175% of $12,880—the poverty guideline for a single-member household.

[13] This is determined as 275% of $12,880. The base number is, again, taken from the 2021 poverty guidelines for this example.

Figure 3. Pell Grant Thresholds[a]



Source: HEA 401 § (b), as amended by the FSA.

Notes: AGI is adjusted gross income. SAI is Student Aid Index. Pell Grant award cannot exceed cost of attendance (COA). Adjusted gross income thresholds, as a percentage of poverty, are established by the FSA amendments. Upper thresholds are inclusive of the lower category. For example, a dependent student who has a single parent who has an AGI that is 225% of poverty may qualify for the maximum Pell Grant award.

[a] Congressional Research Service, 2022, p. 15

For students with dependents of their own (whether single parents or coupled), the income thresholds are higher (see Figure 3). Again, it is important to note that these thresholds are based on reported taxable income (and therefore DCTs are not considered in this analysis).

DCT IMPACT ON STATE, OTHER FEDERAL AND INSTITUTIONAL FINANCIAL AID

The best advice for students and providers is to contact each financial aid funder (institution, state, private organizations) to determine how they will analyze income from the DCT

While the Federal Pell Grant provides considerable financial aid to students, financial aid is also available through many other programs. These programs can generally be divided into two categories: need-based and merit-based. Programs which are need-based usually rely upon the EFC/SAI to determine the amount of their award or whether a student will qualify for an award. Merit-based programs usually rely upon academic or other credentials to determine recipients.

Federal SEOG (Supplemental Educational Opportunity Grants) deserve special mention. They are highly reliant upon the EFC/SAI determined by the needs analysis formula. SEOG is a campus-based fund, meaning that FSA offers a fixed amount of funding to each institution who requests to participate in the program, and Financial Aid offices determine who is awarded the funds from the program. Priority is determined by the institution, with some significant restrictions. FSA requires students with the lowest contribution be given absolute priority in receiving these funds. SEOG awards vary by student and by institution but can be between $100 and $4,000 per academic year.[14]

[14] See Congressional Research Service, The FAFSA Simplification Act, https://crsreports.congress.gov/product/pdf/R/R46909, pages 14.

The rules for each financial aid program offered by states, institutions, or private funders are determined by the funding provider. Each state and institution has their own method for determining financial aid eligibility. Many (but not all) states follow FAFSA eligibility rules. This will mitigate impacts for many DCT recipients.

Institutions and private funders who rely upon FAFSA data will not include DCT income as part of their contribution of the SAI; however, other providers may inquire about other nontaxable income (including DCTs) to be reported and may consider this income in their analysis of student eligibility. The best advice for students and providers is to contact each financial aid funder (institution, state, private organizations) to determine how they will analyze income from the DCT. If needed, the student can explain the special circumstances of the receipt of the DCT and request individual consideration through a Professional Judgment.

PROFESSIONAL JUDGMENT AND OTHER INCOME CONSIDERATIONS

Many institutional and private financial aid providers (but not all) will accept Professional Judgement determinations by FAAs. As income reported on the FAFSA is always based on prior-prior year, the timing of the receipt of the DCT and the attendance in postsecondary education may have important impacts on the determination of nonfederal financial aid. Depending on when the recipient attends school, the DCT benefit (if being currently received) may not need to be disclosed to the funder. If a student, for example, both receives the DCT for the first time in 2022 and attends college or university in the 2022–23 academic year, there would be no immediate impact on financial aid. The income received in 2022 would only become relevant in 2024-25, the student's third year of attendance.

If there is a question about whether income from the DCT should be considered in the application for financial aid, the potential impact of DCT income may be mitigated by a Professional Judgment performed by a Financial Aid Administrator (FAA). FAAs are given wide latitude to make individual adjustments to the data used in needs analyses if there are unusual circumstances. One example of unusual circumstances would be a one-time income source. In the case of DCT income, which is limited 1 or 2 years, an applicant may request a professional judgement from an FAA to ignore or set aside the income. This is strictly determined by the individual FAA and must be evaluated on a case-by-case basis. As part of the professional judgment analysis, an FAA may use any continuous 12-month period to analyze income. Typically, income analysis is based on a tax year, but a different period may be beneficial for a Professional Judgment review if DCT benefits are not on a calendar year cycle (Federal Student Aid, 2021).

To assist DCT recipients in requesting a Professional Judgment adjustment from an FAA, DCT providers may want to provide recipients with a form or letter stating the transient nature of the benefits and explaining the purpose of the funds. This letter could be provided to the FAA as part of a student request for reanalysis.

IMPACTS OF DCT PROGRAMS ON FINANCIAL AID

Direct cash transfer programs should have minimal impact on financial aid awards, as long as they are not conditioned on enrollment in a program of higher education. If the program does require enrollment in higher education, the DCT program would be considered a source of financial aid and would result in a dollar-for-dollar reduction of availability for other financial aid.

As explained earlier, DCTs received in 2022 and later do not have to be reported on the FAFSA as taxable income. As merit-based scholarships do not generally consider income or ability to pay, there should be no impact on these awards if a student is a DCT recipient. Federal need-based programs, including the Pell Grant, will also not be impacted by the receipt of nontaxable DCT income. There remains an open question as to whether other outside funders (state, institution,

and private) will consider DCTs as a source of income and whether a recipient's eligibility for those types of financial aid will be reduced.

SCHOLARSHIP TAXABILITY

While this paper will not comment on the taxability of DCT programs (other than to say that there is a built-in assumption that they are a nontaxable income source), the question of scholarship taxability is important to review. If DCTs are determined to be taxable, they would then be included as income in the analysis of the SAI and could have an impact on Pell Grants and other awards.

Since DCTs are not Estimated Financial Aid, there should be no implications on 1099-T reporting. As a reminder, however, scholarships in excess of tuition and mandatory books are taxable (Internal Revenue Service, n.d.). Scholarship income (above "qualified expenses") are reported on the tax filer's 1040 form. However, they are ignored in the financial aid analysis. Wages from work-study jobs (or need-based employment) are also ignored during the needs analysis although taxes may be due on the associated income.[15]

PROGRAM DESIGN CONSIDERATIONS & FURTHER RECOMMENDATIONS

Private, state, and institutional providers of financial aid may consider the DCT to be income, however, and therefore may reduce the amount of their financial aid to a student receiving these funds.

During program development, DCT providers may want to consider the following issues to minimize any unintended negative consequences for students attending postsecondary education:

- If the DCT program requires enrollment in college, then it is Estimated Financial Aid and results in a dollar-for-dollar reduction in eligibility for other financial aid.
- Whether the program provides cash directly to a student or pays expenses on behalf of the student, the amount of money provided will not be considered income for the FAFSA and therefore will not have any impact on federal financial aid (including Pell Grants). This is true for DCTs with payments beginning in 2022 or later.
- Starting with income received in 2022 (and with the analysis performed in 2024–25), Federal financial aid providers will not include the DCT in their analysis. Private, state, and institutional providers of financial aid may consider the

[15] See "Taxable income offsets" in *2022-2023 Federal Student Aid Handbook*, Application and Verification Guide, Chapter 2 Filling Out the FAFSA, Steps Two and Four: Income and Assets (https://fsapartners.ed.gov/knowledge-center/fsa-handbook/2022-2023/application-and-verification-guide/ch2-filling-out-fafsa).

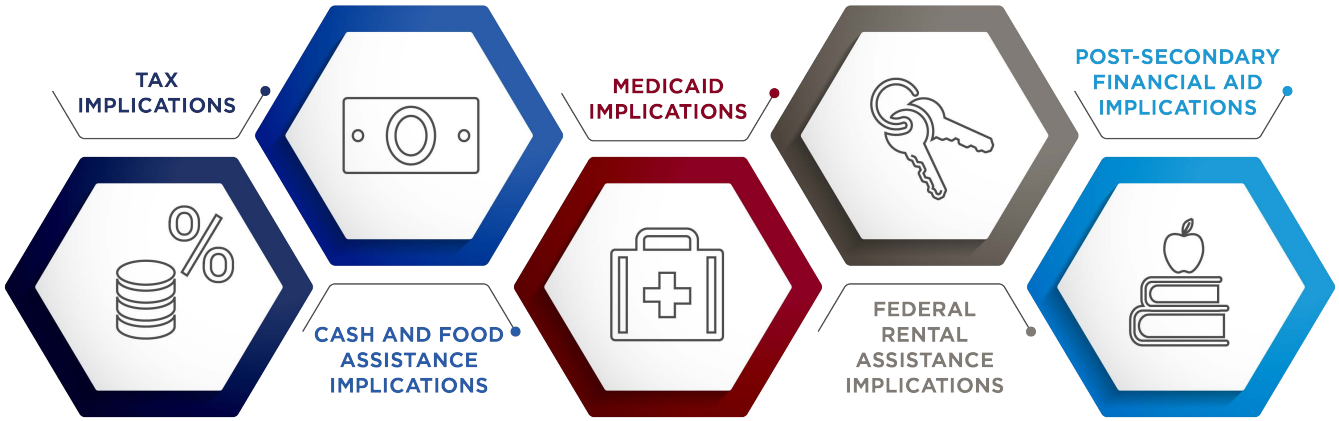
DCT to be income, however, and therefore may reduce the amount of their financial aid to a student receiving these funds. DCT programs may want to proactively reach out to local partners close to the start of the 2024–25 academic year. Then programs could advocate for discounting the direct cash transfer as income and learn what these funding agencies may be considering as treatment of these programs.

- DCT programs for transition-aged youth and youth experiencing homelessness may also want to work with or mentor young people as to how to have conversations with financial aid officers. This mentoring would be especially helpful when seeking professional judgment or documentation of homelessness or independency status.
- The analysis of the impact of DCTs on financial aid assumes that the income is nontaxable and therefore not reported on the IRS 1040. If this changes, or if some aspect of a provider's program makes their DCT taxable, this income will have impact on the student's financial aid award.

CONCLUSION

Direct cash transfers are an important way to assist young adults who are experiencing homelessness. There are an increasing number of these programs nationwide. Both the providers and recipients of funds and are rightly concerned about the impact of these programs on eligibility for financial aid to assist with post-secondary education. This paper attempts to explore all related issues, including dependency status, needs analysis, professional judgment, and changes coming in 2024–25. The paper fully explores questions for consideration, and raises important issues for policymakers and practitioners. Ultimately, the twin goals of ending youth homelessness and realizing educational attainment are and will be life changing for students who make use of these programs. The job of program designers and Financial Aid Administrators is to make sure that there are no unintended hardships for these students as they work towards realizing their dreams.

The toolkit is comprised of multiple well-researched, vetted, and user-friendly resources that cross the spectrum of taxes and public benefits to provide clear policy analyses and recommendations for state and local jurisdictions to implement and evaluate DCT projects for youth and young adults that maximize their positive outcomes and minimize risks to participants.



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