

Tangible Solutions

Financial Information to Meet Your Needs

Spring 2010

Introduction

Many of my clients are seeking useful information to help them make educated decisions on financial matters. Each issue focuses on a specific topic to provide pertinent information which I believe that you will find valuable. If you have a suggestion for a future topic or concern, please let me know. I look forward to your input and feedback.

- Sandy Voit, Owner & Publisher, *Tangible Solutions*

FOCUS: Divorce & Financial Aid

When couples are getting divorced and there are children who either are already enrolled, or have yet to enroll, in college, there are some factors that should be taken into consideration prior to determining your settlement.

All colleges require students who are interested in applying for financial aid to complete the FAFSA (Free Application for Federal Student Aid - www.fafsa.ed.gov). It takes a while to complete the application (you can file online – directions are on the website), and you will need to have completed your tax return (or at least have enough completed to estimate your adjusted gross income, taxable income, etc.) in order to answer their questions. Students are required to complete their own information, but if the student is younger than 24, s/he is considered dependent when applying for federal financial aid and the parent will need to complete the parental information and E-sign the FAFSA. You will need both the student's and your most recent tax year information in order to complete their application.

In order to E-sign the FAFSA for a dependent student, both the student and parent will need a PIN number that you can request on the FAFSA website. For independent students, only the student needs their PIN number to E-sign. FAFSA does not need parental information from independent students.

In terms of divorcing parents, when your child applies for aid whichever parent is considered the custodial parent – i.e., the parent providing more than 50% of the student's support – would be the parent whose tax return information is required. For parents whose incomes are significantly disparate, even though from a tax perspective the deduction is worth more to the parent whose taxable income is higher, your child may wind up with more financial aid if the lower taxable income parent had the deduction as it would be that parent's income that would drive the financial aid eligibility process.

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Think of it this way – if the higher taxable parent was in the 28% tax bracket, a child's deduction of \$3650 saves that parent \$1022 in taxes, versus the parent who is in the 15% tax bracket who saves \$547.50 in taxes. For the years that child were not to go to college, there is a collective savings of \$474.50/year.

However, based upon the lower income parent's income, that same child might receive scholarships, or even federal loans with subsidized interest, that might easily dwarf the savings of the annual tax deduction. For example, a child who receives a subsidized federal loan (Stafford) pays 5.6% interest – and no interest at all as long as they are at least a half-time students, and for six months after they leave school – versus a 6.8% rate for the unsubsidized Stafford loans, with interest accruing as soon as the loan is received. An undergraduate student can borrow as much as \$19,000 (\$3500 the first year; \$4500 the second year; and \$5500 as juniors and seniors). The interest savings are significant!

You might want to discuss this with your financial planner or the financial aid director of a college prior to your child's junior year in high school.

Although the deadline provided is for the last possible date to complete your application (usually prior to the end of the school year), ideally you should complete as soon as possible – generally by early February at the latest – to give your child their best chances at receiving the most sought after financial aid: grants and scholarships. This “free money” is the best type of aid and goes quickly. If you apply too late you will still receive financial aid, but most likely in the form of loans.

Even if your child doesn't know which college they will end up going to, most financial aid staff at virtually every college are always willing to talk with the parents of prospective students to help them plan for college costs. They will be able to provide you access to financial aid information online, or have printed information to give you in person. Please take advantage of their expertise and willingness to help your prepare for college enrollment and the significant costs associated with attending higher education.

End Note: Thank you for taking the time to read this article. I hope you have found it useful. If you have any questions or concerns about this topic, or any other topic, please contact:

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