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Tip^{of} the Week

Are some of your students and families last minute tax filers? Help them find the IRS tax benefits that can help them pay for their higher education. Visit TG's tax benefits page on *TG Online* at www.tgslc.org/resources/tax.cfm.

Federal updates

Spanish version of economic hardship deferment form updated with latest poverty guidelines

The Spanish version of the Economic Hardship Deferment Request form (HRD) and accompanying worksheets have been updated to reflect the new 2006 poverty guideline figures. As mentioned in *Shoptalk Online Edition 341*, the U.S. Department of Health and Human Services (HHS) released updated poverty guideline figures in the *Federal Register* dated January 24, 2006. The poverty guideline is one qualifier that may be used in determining a borrower's eligibility for economic hardship deferment. If a lender receives an earlier version of the HRD form, the form may still be processed. However, the lender must use the new

poverty guideline figures when determining eligibility for an economic hardship deferment on or after January 24, 2006.

The updated Spanish HRD form is available on *TG Online* at www.tgslc.org/forms/frms_def.cfm

More information

For more information about the updated poverty guidelines, visit the HHS Web site at <http://aspe.hhs.gov/poverty/06poverty.shtml>

Latest volume of the 2006-07 FSA Handbook now online

ED has released three volumes of the new 2006-07 *Federal Student Aid Handbook* (FSA Handbook). These three volumes include:

The Application and Verification Guide

Volume 4, Processing Aid and Managing FSA Funds

Volume 6, Managing Campus-Based Programs

The current volumes are available on *TG Online* at www.tgslc.org/resources/fsa_handbook.cfm. Other volumes will be posted as they are released. Once all the volumes of the 2006-07 FSA Handbook have been released, TG will provide a single downloadable file encompassing all of the volumes. Watch future editions of *Shoptalk Online* for details.

ED releases guidance pertaining to loan issues stemming from Higher Education Reconciliation Act

On March 10, ED released Dear Colleague Letter (DCL) GEN-06-02/FP-06-01, which provides clarification, guidance, and triggering events for the loan-related provisions of the Higher Education Reconciliation Act (HERA). The DCL, which is available on the Information for Financial Aid Professionals (IFAP) Web site at www.ifap.ed.gov/dpcletters/GEN0602.html, covers the following topics:

Topics primarily affecting schools and borrowers

- Consolidation loans
- Direct Loan repayment plans
- Disbursement of loans
- False certification discharges
- Interest rates
- Loan limits

- Military deferment
- PLUS loans for graduate or professional students
- Rehabilitation of defaulted loans
- School lenders in the FFELP
- Teacher loan forgiveness

Topics primarily affecting lenders and guaranty agencies

- Account maintenance fees
- Administrative wage garnishment
- College Access Initiative
- Default collections
- Escrow agents
- Federal default fee
- Forbearance agreements
- Interest repayment from lenders
- Lender insurance percentages
- Origination fees
- Reinsurance claims from guaranty agencies
- Special allowance payments on tax-exempt loans

Errors in the DCL

A couple of errors have been identified in the DCL. Specifically, on the chart on Page 7 that provides the Stafford loan annual limits that will become effective for any loan certified or originated on or after July 1, 2007, the “additional unsub” amount for “third year and beyond undergraduate” should be \$5,000 (not \$10,500); and the “additional unsub” amount for “preparatory coursework (for enrollment in an undergraduate program)” should be \$4,000 (not \$6,625).

Additional DCL expected soon

According to GEN-06-02/FP-06-01, ED is planning to release another DCL shortly that will discuss the other non-loan-related provisions of the HERA. *Shoptalk Online* will announce that DCL when it is published.

More information

If you have questions about this DCL, call TG customer assistance at (800) 845-6267 or send an e-mail message to cust.assist@tgscl.org.

TG updates

Update: 2006 TG Conference, *Caring for our Generation and the Next*



April is often a time when financial aid professionals can take a moment to unwind from a hectic year and perhaps get in a bit of rest and relaxation before the next peak season begins. That is what TG has planned for this year's annual conference that will be held from April 18 – 20 in Austin, Texas. During the three day event, our school and lender

customers will be treated to some of the best training available in higher education, all focused to help attendees "relax, retool, and recharge."

The conference will kick-off with a recognition ceremony for the service our business partners have provided their students and the industry. Attendees then will have time to relax during the "Stay and Play" event Tuesday night. Participants will be able to relax at the hotel with their financial aid colleagues and take advantage of networking opportunities while participating in a classic "game night." There will be options for everyone — movies, bunco, card and board games, and other creative ways for to win or lose and be eligible for prizes. The night will include food, drinks, music and an atmosphere of camaraderie.



Coach Ken Carter will be the keynote speaker at the 2006 TG conference.

The second day will provide an assortment of sessions to help conference attendees *retool* by learning more about regulatory developments, debt and enrollment management, and various school and lender issues. The day will conclude with the "Power Hour" — a series of fun, informal 20-minute roundtable discussions that will give you the latest scoop on a variety of professional development and industry topics.

The final day features industry and professional development training sessions. The conference will be capped with an inspiring keynote address by Coach Ken Carter, whose real-life story as a high school basketball coach in California was dramatized in a film starring Samuel L. Jackson. Coach Carter's speech is sure to give participants a new, *recharged* perspective on their work to take back to their office.

More than 565 school, lender, and servicer representatives have already registered. Early registration ends March 17. So, if you haven't registered already, don't miss an opportunity to enjoy three days of professional development, industry training, and networking opportunities with your financial aid colleagues.

Highlights from the 2006 TG Conference Agenda

- The **TG Golf Classic** will tee-off on Monday, April 17, at 1 p.m.
- The **TG Users Group** will meet on Tuesday, April 18, from 8 a.m. to 11:30 a.m.
- The **Stay and Play** will be held Tuesday, April 19, from 6:30 p.m. to 11 p.m.
- TG's annual **Financial Aid 4K Run/Walk** will be held Wednesday, April 19, from 6:15 a.m. to 7:45 a.m.
- Six **session tracks** focusing on various areas of financial aid, professional development, and other training areas will be offered.

More information

For a complete conference agenda and registration details, visit the 2006 TG Conference page on *TG Online* at www.tgslc.org/tgconference/index.cfm.

Reporting Back: 1984



TG's Annual Report for 1984 once again recalled a year filled with significant accomplishments in technological innovation, customer service, and educational access. The following excerpts showcase these accomplishments, and some foreshadow future advancements.

"Perhaps the most significant achievement during 1984 was one toward which we have worked since we began administering student loans in Texas four years ago. It was the reality, for the first time in the history of Texas, of assured loan access for all qualified borrowers. This is truly a milestone. It helps guarantee a place in postsecondary education for every deserving applicant regardless of his or her financial circumstance. . . .

"The TGSLC default rate is 4.28 percent — well below the national average of approximately 10 percent. In part this is because of TGSLC's persistent efforts to prevent student loan defaults. If a borrower falls behind in his or her payments, TGSLC's pre-claims staff helps the lender avert default by pursuing the borrower in writing and by telephone until the account is brought current. . . .



"Should a Texas borrower actually default, TGSLC moves quickly to reimburse the lender for the loss. In 1984 lenders' claims were paid, on average, within 15 days of arrival at TGSLC. Within the next few years, we will be paying claims even more quickly. Before TGSLC was established, lenders

typically waited six to eight weeks to be reimbursed by the federal government. . . .

“Prior to 1981, Texas student loan applications were sent to a federal processing center to secure federal guarantee or repayment. Lenders often waited two to three months to secure guarantees. Today TGSLC typically processes student loan applications in two days — always in seven days or less. In 1984 we handled 58 percent more Texas applications than the federal processing center did in 1980. Thanks to this rapid turnaround, students receive loan proceeds when they are needed. . . .

“TGSLC would like to further shorten the turnaround time by reducing the amount of time applications spend in the mail. We are currently designing a combined application/promissory note that should, in many cases, reduce the time required to originate loans by as much as two weeks. For the future, we are investigating various means of electronically processing applications and promissory notes. Eventually students may secure loans on the same day they apply for them.”

Question of the week

Q: Can a school charge interest to a student, who is subject to delayed disbursement, on an institutional tuition or emergency loan, or charge the student a late fee on his or her tuition bill, while the student is waiting for his or her Stafford loan funds to come in?

A: No, per the 34 Code of Federal Regulations 668.14(b)(21), as part of its Program Participation Agreement with ED, a school must agree that: “It will not impose any penalty, including, but not limited to, the assessment of late fees, the denial of access to classes, libraries, or other institutional facilities, or the requirement that the student borrow additional funds for which interest or other charges are assessed, on any student because of the student's inability to meet his or her financial obligations to the institution as a result of the delayed disbursement of the proceeds of a Title IV, HEA program loan due to compliance with statutory and regulatory requirements of or applicable to the Title IV, HEA programs, or delays attributable to the institution.”

Do you have a question?

If you have a question that needs an answer, feel free to *Ask TG™*. *Ask TG* is TG's online query tool for borrowers, schools, and lenders. *Ask TG* includes a database of frequently asked questions about financial aid, student loan processing, and TG's products and services. To submit a question to *Ask TG*, visit <http://tgslc.custhelp.com>.

Trends and issues

Are taxes taxing your students?

College life is filled with many firsts for students. These firsts are rites of passage, highlighting the beginning phases of what one day will become the *real world*. A first can be as exciting as it is intimidating, whether it's the first time to live away from home, the first time to miss a class, the first time to get a job, or the first time to file tax forms.

When confronted with filing an income tax return for the first time, students often call on financial aid administrators to act as guides to lead them through the bewildering world of tax codes, laws, and liabilities. Though financial aid administrators are not expected to be tax experts, they often have a basic understanding of tax laws and regulations that can be used to help students become responsible tax-paying citizens, allowing them to move one step closer to entering the *real world*.

When is a student required to file a federal income tax return?

Whether a student is required to file a 2005 Federal Income Tax Return (tax return) varies depending on:

- If the student is eligible to claim his or her personal exemption, and
- The student's filing status and income.

Why would a student file if he or she didn't have to?

Even if a student is not required to file a tax return because his or her income was below the filing requirement, it is often advantageous for a student to do so. A student who is not required to file may still be eligible to claim outstanding federal income tax withholding that he or she paid, an earned income credit (EIC), or other refundable tax credits and payments.

When can a student claim a personal exemption?

There are two types of exemptions: personal exemptions and exemptions for dependents. A student may claim his or her personal exemption only if he or she cannot be claimed as a dependent by another person. If the student may be claimed as a dependent by another person, he or she may not claim his or her personal exemption, even if the other person does not actually claim the student as a dependent.

In 2005, the IRS changed the definition of a dependent. A dependent is a *qualifying child* or a *qualifying relative* who:

- Cannot claim his or her personal exemption,
- Is not married (see exception in *IRS Publication 17*), and

- Is a U.S. citizen, U.S. resident, U.S. national, or a resident of Canada or Mexico for some part of the year.

A *qualifying child* is a child who:

- Is related by blood (son, grandchild, niece, brother, half-sister, descendant, etc.), law, or marriage (foster child, step-brother, step-daughter, etc.),
- Was under the age of 19 (24 if a full-time student) at the end of the year or is permanently and totally disabled regardless of age,
- Lived with the taxpayer for more than half the year except for temporary absences — special consideration is given in situations concerning children of divorced or separated parents, and
- Did not provide more than half of his or her own support for the tax year.

The “Tie-Breaker Rule” may be used in cases where more than one person is claiming the same *qualifying child*.

A *qualifying relative* of a taxpayer is a person that:

- Lived with the taxpayer as a member of the household for the entire tax year, or who does not live with the taxpayer but is related to the taxpayer by blood, law, or marriage — a spouse or foster parent(s) is not considered related to the taxpayer for the purpose of meeting this part of the definition,
- Had a gross income of less than \$3,200, and
- The taxpayer provided more than half of the person’s total support for the tax year — except in the case of a multiple support agreement.

What are the filing requirements for students?

In general, the filing requirements for a student eligible to claim his or her personal exemption on a tax return are the same as the filing requirements for most taxpayers. For example, if a student is single and eligible to claim his or her personal exemption, he or she must file a tax return if his or her gross income was more than \$8,200 during 2005.

However, if a student is not eligible to claim his or her personal exemption, he or she must use the filing requirements for dependents to determine if he or she is required to file a tax return. Normally, a dependent is required to file a tax return if his or her 2005:

- Earned income exceeded \$5,000,
- Unearned income exceeded \$800, or
- Gross income exceeded the larger of:

- \$800, or
- Earned income (up to \$4,750) plus \$250.

Regardless of a student's eligibility to claim his or her personal exemption, if the student had a net income of \$400 or more in self-employment income — gross income less expenses — the student is required to file a tax return. In addition, the IRS has identified other exceptional situations in which a student may be required to file a tax return.

What is gross income?

The IRS has defined gross income as all income not exempt from tax, including income from sources from outside the United States, received in the form of:

- Money,
- Goods,
- Property, and
- Services.

When is financial aid taxable?

Although many students and parents may not realize it, all or part of the financial aid that a student receives may be taxable. For example, Work-Study is considered wage income and is fully taxable. However, if the student does not meet the minimum income requirements to file a tax return, then the student is not required to report the wages.

Although not all financial aid is taxable (e.g., student loans and veteran's educational benefits are not taxable), scholarships, fellowships, and educational grants may be taxable.

A scholarship, fellowship, or educational grant is tax-free only if the student:

- Is seeking a degree at an eligible educational institution, and
- Uses the funds to pay for *qualified education expenses*.

Qualified education expenses include:

- Tuition and fees required to enroll at or attend an eligible educational institution, and
- Course related expenses required of all students in the course of instruction — such as fees, books, supplies, and equipment.

Expenses for room and board, travel, research, or equipment and other expenses that are not required for enrollment in or attendance at an eligible institution are not considered *qualified education expenses*. Any portion of a scholarship,

fellowship, or educational grant used to pay for non-*qualified education expenses* is taxable to the student and must be reported as income in the wages, salaries, tips, etc. field of the tax return.

If a student's income — including taxable portions of scholarships, fellowships, and educational grants; Work-Study wages; and all other types of income combined — meets the minimum gross income requirements for filing, then the student would be required to file a tax return.

When is the 2005 tax return due?

For most taxpayers, including students, the 2005 tax return is due April 17, 2006. New this year, if a taxpayer is unable to file his or her return by the due date he or she may file for an automatic six-month extension — rather than the previous automatic four-month extension — using Form 4868, thereby extending the deadline to file his or her tax return to October 16, 2006.

More information

For additional information concerning the topics discussed here and to access the tables referenced below, see the IRS's Your Federal Income Tax: For Individuals, 2005 Publication 17 at: <http://www.irs.gov/pub/irs-pdf/p17.pdf?portlet=3>.

- Table 1-1: Filing Requirements for Most Taxpayers,
- Table 1-2: Filing Requirements for Dependents,
- Table 1-3: Other Situations When You Must File a 2005 Return,
- Table 3-1: Overview of the Rules for Claiming an Exemption for a Dependent
- Table 3-2: When More Than One Person Files a Return Claiming the Same Qualifying Child (Tie-Breaker Rule)

Also, visit TG's IRS Resources for the Financial Aid Advisor (FAA) Web site at *TG Online* at: www.tgslc.org/resources/irs_resources.cfm.

Legislative update

The March 8 issue of TG's *Legislative Report* includes updates on the Senate Budget Committee's FY 2007 budget resolution and FY 2007 budget proposals for student financial aid. Keep up with the latest developments by reading the full report on *TG Online* at www.tgslc.org/lege_report/index.cfm.

This, that, and the other

Textbook prices have been rising at double the rate of inflation for the past two decades, according to a Government Accountability Office study. High costs are making some students decide to just do without some textbooks, according to a January 23 article in *The Washington Post*. The National Association of College

Stores recently found that nearly 60 percent of students nationwide choose not to buy all the course materials.

Book prices can be a nasty surprise — one more thing putting college out of reach.

Students at four-year schools spent, on average, about \$900 for books and supplies in 2003-04, more than a quarter of the cost of tuition and fees. At community colleges, the GAO study found, the books amounted to almost three-quarters of the cost.

Because many undergraduates get federal financial aid, the overall cost of college is a concern to Congress, which sought the study.

Textbook prices almost tripled from 1986 to 2004, the GAO report this summer found, in large part because of the increasing cost of developing the things that now often come with the books, such as CD-ROMs, Web sites and workbooks. And publishers revise texts more quickly than they used to, limiting the used-book market.

Bills in Congress would provide grants to some schools to launch rental plans and make as much as \$1,000 of textbook costs tax deductible. To read the complete article, visit www.washingtonpost.com/wp-dyn/content/article/2006/01/22/AR2006012201290.html



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