



## **PROFILE Online – Estimating Tips**

### **Estimating Income**

Your colleges will determine your family's contribution and your eligibility for financial aid based on your family's income, assets, expenses, and taxes paid for the tax year prior to enrollment. In order to provide you with financial aid information in a timely manner your colleges and programs may set deadlines that are earlier than the end of the year or before tax returns are completed. In those situations, you are asked to enter estimated information on the PROFILE in order to meet those deadlines. In most cases, your colleges and programs will confirm these estimates with your completed tax returns. Some colleges will also ask for copies of the most recently completed tax return to help confirm your estimate.

Good estimates are important; you want the most precise information possible about financial aid eligibility as early as possible. You also want to avoid having your aid award change once you provide actual figures but after you have made the decision to attend a particular college.

- **Early Applicants (before January 1)**

- If you are an early applicant, gather copies of your most recent (prior year) tax forms along with your most recent pay stubs, bank statements, and any other records of income (taxed and untaxed) for the current year. Use the "PROFILE Question/Tax Form Line Reference Table" and/or the 2005 "U.S. IRS Tax Forms" found in the Help Desk to translate the 2005 tax form line references found on the PROFILE to your 2004 tax forms.
- Use your pay stubs to determine your income for the entire year by adding your expected wages for the remaining months to the amount you have earned to this point in the year. Be sure to only count income that will be subject to federal tax; use the wage figure in Box 1 –of your previous year's W-2 to assist you in this calculation.
- To determine your untaxed income, start with the data from your previous year's tax return. Use your pay stubs to calculate any change in your retirement contribution or other income not subject to federal tax. Other untaxed income can be derived by adding any amounts received to date to amounts expected through the end of the year. Once you have determined your expected current year income, check it against your prior year tax return to see if it makes sense. Add in any other non-wage income that you expect in the current year and note any adjustments (2004 IRS Form 1040 lines 23 - 34a or 1040A lines 16 - 19) to income. This will derive an estimated Adjusted Gross Income (AGI).

- Estimate your taxes by using your prior year tax return. Figure the percentage of AGI represented by the US tax (divide 2004 IRS Form 1040 line 56 by line 36 or 1040A line 36 by line 21 or 1040EZ line 10 by line 4) and apply the resulting percentage to your estimated AGI. This assumes there will be no significant changes in exemptions and deductions between the two years. Do not use your estimated withholding (from your W-2s) as estimated tax paid because in most cases actual tax paid will be different.
- Self-employed applicants should use the same process, but with their year-to-date balance sheet rather than most recent pay stub(s). The amount paid in “self-employment tax” should never be added into the figure for estimated US tax. “Self-employment tax” is calculated and accounted for by the financial aid administrator in the need determination. (See “Tips for Self-Employed Applicants” in the Help Desk for more information.)
- Hint: Use your prior year tax return as a guide and write the estimated figures on that return. This will help you compare the two years and will create an important record to help you understand changes in your aid when your tax information is final.

- **Applicants after January 1<sup>st</sup>**

It is always best to use your actual tax returns to complete the PROFILE. However, if you are applying after January 1<sup>st</sup> but before you can complete your tax returns, you can use your actual year-end pay stubs or balance sheet or possibly your W-2 forms to estimate income. You may also be able to use receipts to estimate deductions. See the “U.S. IRS Tax Forms” in the Help Desk to print out the appropriate tax return(s) and estimate by completing the form with the information available. This will allow you to also calculate tax more precisely. Do not submit this draft return to the college or to the IRS; send a signed final return to both when completed.

- **Finally**

Check your estimates against your most recently completed tax return. If there is a significant difference, explain why in Section P. Reasons for a significant difference might include a salary increase or decrease, a job change, presence of one-time income in the previous or current year, or a decrease in deductions.

## **Other Estimating Tips**

### **Estimating student’s summer wages, salaries, tips, etc.** (Section F, question 26a)

Complete this question with your best guess as to what you might make, even if you don’t currently have a job. Consider previous summer employment, the potential of your getting a job in your area, and the prevailing wage rate. Estimate the total you will earn pre-tax and let your school know if your estimated amount is significantly different than what you actually make.

### **Grants, scholarships, fellowships, etc.** (Section F, question 26i)

Do not estimate on this question. Report the amount of grants, scholarships, etc. that you know you will receive. Do not include scholarships for which you have applied, unless you are certain you will receive the award. If you are granted a scholarship or other financial award after you submit your PROFILE application, update your colleges as soon as you have any new information.

**Estimating amount parent(s) think they will be able to pay for college expenses** (Section F, question 26k)

Colleges want the best idea you and your parents currently have of their ability to pay for your first year of college from income and assets. College expenses include tuition and fees, books and supplies, room and board, transportation, and personal expenses. **Don't include** contributions from your noncustodial parent or amounts your parents plan to withdraw from Section 529 prepaid tuition plans. (Report such withdrawals in question 26l.) You should consider this question carefully and realistically. You should also notify the college later if there is a significant change in your ability to pay the amount estimated.

**Estimating Medical and Dental Expenses not Covered by Insurance** (Section H, questions 35a & b – parents; Section E, question 24 – student)

When estimating medical and dental expenses, begin with the expenses you and your family incurred over the past year that will be repeated in the coming year including insurance premiums, prescriptions, glasses or contact purchases, etc. See IRS instructions for Form 1040, Schedule A for a comprehensive list of expenses to include. Consider any additional expected costs such as planned medical or dental procedures. Do not include amounts that will be covered or reimbursed by insurance. If estimated medical expenses are significantly higher than the previous year, explain in Section P.