Federal Tax Information in Student Aid Data

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WestEd

Supplement to DISC's FAQs on Access, Disclosure, and Use of Federal Student Aid Data

OVERVIEW

This supplement expands on the Data Integration Support Center's (DISC) "Access, Disclosure, and Use of Federal Student Aid Data," which provides answers to frequently asked questions (FAQs) about Family Education Rights and Privacy Act (FERPA), Higher Education Act (HEA), and Privacy Act of 1974 compliance. This document addresses the critical distinctions between federal tax information (FTI) and other Free Application for Federal Student Aid (FAFSA) data elements, following the Department of Education's guidance in GENERAL-25–08. Understanding these distinctions is essential for state education agencies, institutions of higher education, statewide longitudinal data system (SLDS) administrators, and workforce partners to maintain compliance while maximizing the use of student aid data for legitimate educational purposes.

To use this supplement effectively, readers should first review "Access, Disclosure, and Use of Federal Student Aid Data" to understand FERPA exceptions, HEA provisions, and written agreement requirements because this supplement builds upon those foundational concepts.

NOTE: This supplement is intended for informational purposes only and does not constitute legal advice. For legal interpretation or decisions, consult your agency's legal counsel. DISC is available to meet with legal teams to provide clarification or discuss specific use cases; email info@disc.wested.org.

QUESTION
1

What constitutes FTI in FAFSA data?

FTI is all the data that are directly received or derived from the Internal Revenue Service (IRS). FTI within FAFSA data is governed exclusively by Internal Revenue Code (IRC) § 6103 and cannot be used for most cross-sector data-sharing, research, or evaluation activities—even when de-identified. However, non-FTI FAFSA elements remain available for these purposes under existing FERPA and HEA authorities.

Comparison of FTI and Non–FTI Elements

FTI Elements *Cannot be shared for general research/evaluation*	Non–FTI Elements *Available for authorized uses*
• IRS-imported adjusted gross income • IRS-imported tax filing status • IRS-imported income tax paid • IRS-imported untaxed individual retirement account (IRA) distributions • IRS-imported untaxed pension amounts • IRS-imported IRA deductible payments • IRS-imported education credits • Any data element directly transferred from IRS systems via the IRS Data Retrieval Tool or Direct Data Exchange	• Student Aid Index (SAI) • Household size • Dependency status • Enrollment status • Manually entered income information • Federal Pell Grant eligibility • Cost of attendance • Expected family contribution components not derived from IRS data • Demographic information • School codes and enrollment history

Simplified Applicability Matrix

Aspect	Regular FAFSA Data	FTI
Governing law	HEA, FERPA, Privacy Act	IRC § 6103 exclusively
De-identification impact	Removes privacy restrictions	Remains FTI regardless of de-identification
Research use	Permitted under HEA, FERPA	Prohibited without specific IRS authorization
Cross-sector sharing	Allowed with appropriate agreements	Generally prohibited
Unauthorized disclosure	FERPA violations (funding loss)	Federal crime (5 years/$5,000)

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QUESTION 2

Can our SLDS include FTI from FAFSA records in our research database?

No. FTI cannot be included in SLDS platforms or research databases without explicit IRS authorization under IRC § 6103. Even if your SLDS has robust security measures and operates under FERPA's Audit or Evaluation Exception, FTI remains governed solely by IRC § 6103.

QUESTION 3

We want to study the relationship between student financial need and participation in the Supplemental Nutrition Assistance Program. Can we use FAFSA data?

Yes, but only non-FTI elements. You can use the following data:

- SAI
- household size
- dependency status
- manually entered income (if provided)
- Pell Grant eligibility status

You cannot use IRS-imported income data, even if the data are properly de-identified. Review the following table to structure your research to rely on non-FTI data elements rather than specific IRS-imported elements.

Alternative Non-FTI Data Elements for Cross-Sector Analysis

Financial Need Indicators	Education Pathway Markers	Demographic Variables
• SAI • Pell Grant eligibility and amount • Dependency status • Household size	• Enrollment intensity • Program of study • Credential-seeking status • Transfer patterns	• First-generation status • Geographic indicators • Age/dependency status

Alternative Approaches for Income-Related Research

If income analysis is essential, consider the following approaches:

- using SAI as a comprehensive need measure
- collecting income data directly from students via surveys
- leveraging Census tract-level income data

- using National Student Clearinghouse wage outcomes (postgraduation)
- partnering with state unemployment insurance agencies for employment outcomes

QUESTION
4

Can institutions share FTI with third-party contractors that are managing their financial aid systems?

Yes. Institutions may share FTI with third-party contractors but only for the administration of Title IV federal student aid programs and only under strict conditions.

Key Compliance Requirements

- **Purpose:** The contractor must be performing functions that the institution would otherwise perform itself.

- **Written Agreements:** A written agreement must specify compliance with IRC § 6103.

- **Limitations:** The contractor cannot use FTI for any other purpose.

- **Compliance:** The contractor must comply with IRS Publication 1075 requirements.

QUESTION
5

If we properly de-identify FTI, can it be used for research?

No. This is a critical distinction from other FAFSA data. FTI remains FTI regardless of de-identification. Unlike FERPA-protected data, which loses restrictions once properly de-identified, FTI retains all IRC § 6103 restrictions even after all identifying information has been removed.

QUESTION
6

How should multistate collaboratives handle FTI restrictions?

Multistate collaboratives must

- exclude FTI from all shared datasets,

- develop common data standards that rely on non-FTI elements,

- create standardized documentation identifying FTI fields, and

- implement consistent technical controls across all participating states.

Suggestions for FTI-Compliant Data Governance

Technical Controls	Policy Controls
• Implement field-level access controls distinguishing FTI from non-FTI.	• Designate an FTI compliance officer.
• Create automated audit logs for any FTI access.	• Require annual training on IRC § 6103 requirements.
• Establish separate storage with enhanced encryption for FTI.	• Establish a clear data request review process.
• Develop APIs that automatically exclude FTI fields.	• Create template agreements that explicitly exclude FTI.

QUESTION 7

Can FTI be used for state-level financial aid program administration?

Yes, states may use FTI to

- determine eligibility for state-funded student financial aid,
- calculate state grant amounts, and
- verify continued eligibility for state aid.

States cannot use FTI for broader educational research, cross-sector data integration, or workforce outcome studies.

Regulatory Citations

- IRC § 6103 (FTI restrictions)
- **IRS Publication 1075:** Tax Information Security Guidelines
- Electronic Announcement GENERAL-24-129, updated September 30, 2025

- Electronic Announcement GENERAL-25-08, September 30, 2025
- **HEA General Provisions,** 20 U.S.C. § 1090
- **FERPA Regulations,** 34 CFR Part 99

Acronyms

DISC: Data Integration Support Center

FAFSA: Free Application for Federal Student Aid

FAQ: Frequently asked question

FERPA: Family Educational Rights and Privacy Act

FTI: Federal tax information

HEA: Higher Education Act

IRA: Individual retirement account

IRC: Internal Revenue Code

IRS: Internal Revenue Service

SAI: Student Aid Index

SLDS: Statewide longitudinal data system

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