How Financial Aid Views Parental Income and Assets

Income

For most families, income determines much (often most) of the parental contribution. The financial aid system depends on the tax forms for much of its information but does not always define income and expenses as does the IRS.

The federal system and Wellesley's institutional system both use the most recent, complete tax year. In situations of unemployment, we ask parents to complete a worksheet outlining their current income and to check in with us periodically concerning their situation.

<u>Taxable Income</u>:

This type of income includes wages, interest income, and dividends. They are the most common forms. Other forms include business, farm, and rental income, income from royalties and trusts, and other miscellaneous items on the first page of the 1040. Depreciation on businesses or rentals is added back, as is automobile use, meals, and other deductions allowed on Schedules C and E and on corporate returns. Our system nets all losses on the first page of the 1040 to zero, meaning that for financial aid, they do not reduce parental income. On the other hand, on-time additions to income from capital gains are not counted as income in the financial aid system.

Income of the student's noncustodial parent is defined the same way except that child support paid out is deducted from the income. Both custodial and noncustodial income defines the income (and parental contribution) levels associated with the loan levels.

<u>Untaxed Income</u>

Untaxed income includes obvious sources of income, such as Social Security, Veterans' Benefits, welfare, disability, workers compensation, and child support. It also includes parents' annual voluntary contributions to tax deferred retirement plans (SEP, IRA, 401, and 403) and cash flows from businesses and/or rental properties used to meet family living expenses.

Assets

With regard to retirement savings (SEP, IRS, 401, and 403), the amount that parents have saved in the retirement account is <u>not</u> considered a parental asset in Wellesley's aid system.

The equity in the primary residence is part of Wellesley's assessment of parents' financial strength and ability to pay. We have various ways of diminishing its importance in our analysis because we understand that it is not a liquid asset.

Other assets in our analysis include savings and checking accounts and investment accounts. Assets held in the student's name but given to her by her parents are considered assets of the parents. They are usually "the college account" for the student. Considering them to be a parental asset is a very favorable treatment for the family since the financial aid system generally expects a high contribution from a student's assets.