Inheritance and College Financial Aid Quick Reference Chart

Asset Category	Asset Type	FAFSA[1] Reportable Asset?	CSS Profile[2] Reportable Asset?	Withdrawals May Cause Taxable Income[3] That Reduces Aid?	May Cause Aid-Reducing Taxable Income After Date of Death?[4]	May Get a Step Up in Basis?[5,6]	Possible Next Step
Retirement Assets	IRA/401K/403B	No	No	Yes	Yes, When You Have to Take Required Minimum Distributions[7]	No	Beneficiary IRA
	Roth IRA / Roth 401K	No	No	No, But May Generate Untaxed Income[8] That Reduces Aid	No	No	Beneficiary Roth IRA
	Annuity	No	Yes, If the School Requires It.	Yes, On the Growth Above the Basis[5]	Yes, When You Have to Take Required Minimum Distributions[7]	No	Beneficiary Annuity
Other Assets	Stocks, ETFs or Mutual Funds	Yes	Yes	Yes, If Sales Generate Capital Gains	Yes, On Any Capital Gains, Dividends or Interest	Yes	Transfer to Your Brokerage Account / Investment Portfolio or Sell (Cash Goes to Your Bank Account)
	Bank Accounts / CD	Yes	Yes	No	Yes, On Any Interest That Accrues	Yes, On Any Interest That Accrues	Transfer to Your Bank Account
	Life Insurance Proceeds	Yes	Yes	No	Yes, If Insurance Proceeds Generate Interest	NA	Keep Proceeds in a Money Market Account at Insurance Company or Transfer Cash to Your Bank Account
	College Saving Plans	Yes	Yes	No, As Long As Withdrawals Are Used For Qualified Education Expenses	No, As Long As Withdrawals Are Used For Qualified Education Expenses	No	The Designated Successor Owner[9] Takes Over the Account

How to Use This Chart

Use this chart and, the definitions below, and my [8 Types of Inherited Assets] article as quick references to help you determine if your inherited assets must be reported on college financial aid applications or could generate taxable income that you must report. Possible next steps are also shown, to indicate the potential best options to help you minimize any negative impact on financial aid and help you make the most of your inheritance.

Footnotes and Definitions

[1] **FAFSA**: Free Application for Federal Student Aid

[2] **CSS Profile**: College Scholarship Service Profile (An additional and much more complicated financial aid form required by some colleges.)

[3] **Taxable Income**: Income that potentially increases your adjusted gross income (AGI) on your tax return, which can reduce your need-based financial aid eligibility.

[4] **Taxable Income After Date of Death**: Some inherited assets can generate taxable income after the original account holder's death, so holding these assets may generate unavoidable taxable income that reduces college financial aid.

[5] **Basis**: The is the original purchase price or investment in a particular asset, which may also include related fees. Capital gains taxes will be charged on the difference between this basis and the sale price of the asset when it's later sold. Often, if you inherit an asset, you can step up the basis (see below), which can reduce the amount of taxes you owe when you sell the asset.

[6] **Step Up in Basis**: An increase of the cost basis of an asset, typically due to the death of the original owner. This option can help reduce the amount of capital gains taxes you may need to pay when you sell the inherited asset.

[7] **Required Minimum Distributions (RMDs)**: Minimum amounts that must be withdrawn each year from an inherited retirement plan or IRA. Additionally, the entire balance must be withdrawn within 10 years unless the beneficiary is a surviving spouse, a minor, a disabled or chronically ill person, or someone who is less than 10 years younger than the deceased.

[8] **Untaxed Income**: Income that doesn't incur taxes or increase your AGI, but it still appears on your tax return. Some of this income may be assessed as part of the FAFSA and potentially reduce your aid eligibility.

[9] **Successor Owner**: College savings plans typically have both a successor owner and a beneficiary. The successor owner is the person who becomes the new owner of the plan upon the death of the original account owner. The beneficiary is the student who will use the money to help pay for college.

[10] **Qualified Withdrawals**: Funds withdrawn from college savings plans and used to pay for qualified K-12 or college expenses. These qualified withdrawals do not incur taxes. Funds withdrawn and used for non-qualified expenses will incur taxes and may also incur penalties.