

Coping with an Inheritance

A windfall from a loved one can be both rewarding and complicated.

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Inheriting wealth can be a burden and a blessing. Even if you have an inclination that a family member may remember you in their last will and testament, there are many facets to the process of inheritance that you may not have considered. Here are some things you may want to keep in mind if it comes to pass.

Take your time. If someone cared about you enough to leave you a sizable inheritance, then you will likely need time to grieve and cope with their loss. This is important, and many of the more major decisions about your inheritance can likely wait. And consider, too – when you're dealing with so much already, you may be too overwhelmed to give your options the careful consideration they need and deserve. You may be able to make more rational decisions once some time has passed.

Don't go it alone. There are so many laws, options, and potential pitfalls – the knowledge an experienced professional can provide on this subject may prove to be vitally important. Unless you happen to have uncommon knowledge on the subject, seek help.

Do you have to accept it? While it may sound ridiculous at first, in some cases refusing an inheritance may be a wise move. Depending on your situation and the amount of your bequest – it may be that estate taxes will drain a large amount. Depending on the amount that remains, disclaiming some of (or all) the gift is worth contemplation.¹

Think of your own family. When an inheritance is received, it may alter the course of your own estate plan. Be sure to take that into consideration. You may want to think about setting up trusts for your children – to help ensure their wealth is received at an age where the likelihood that they'll misuse or waste it is decreased. Trust creation may also help you (and your spouse) maximize exemptions on personal estate tax.

The taxman will be visiting. If you've inherited an IRA, it is extremely important that you weigh the tax cost of cashing out against the need for instant funds. A cash out can mean you will have to pay (on every dollar you withdraw) full income tax rates. This can greatly reduce the worth of your bequest, whereas allowing the gains of the investment to continue to compound within the account, and continuing to defer taxes, may have the opposite effect and help to increase the value of what you've inherited.

Stay informed. The estate laws have seen many changes over the years, so what you thought you knew about them may no longer be correct. This is especially true about the taxation on capital gains. The assistance of a seasoned financial professional may be more important than ever before.

Remember to do what's right for you. All too often, an inheritance is left in its original form, which may be a large holding of a single company – perhaps even one started by the relative who bestowed the gift. While it's natural for emotion to play a part and you may wish to leave your inheritance as it is, out of respect for your relative, what happens if the value of that stock takes a nosedive? The adage “never put all your eggs in one basket” may be wise words to live by. Remember that this money is now yours – and the way in which you allocate assets needs to be in line with your needs and goals.

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1 - thebalance.com/will-you-have-to-pay-taxes-on-your-inheritance-3505056 [4/8/19]