

Planning, Advice Will Help Secure Windfall

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The dictionary describes a windfall as a sudden or unexpected piece of good fortune. Whether your good fortune is the result of a winning lotto ticket or an unexpected inheritance, you'll have many decisions to make.

How much will you spend, save or give away? How will taxes, investments and helping others impact your newfound wealth? What should you do first?

It is usually best to make decisions slowly with the help of qualified advisors who have no stake in the outcome of your decisions. To help you begin thinking through the many issues and opportunities presented by a windfall, here is a quick sample of a few items to consider first.

In the movies, a windfall is often distributed with flourish and a large lump sum check. In reality, your windfall may be a mix of stocks, bonds, and other assets such as real estate. When determining what assets to sell and what to keep, you must consider not only the value each presents to you personally, but the fact that each asset has its own tax implications.

- **Stocks:** If you inherit stocks, the stock is given a stepped-up cost basis for tax purposes. That means your cost basis is the fair market value of the stock as of the donor's death, not the original purchase price. When you sell the stock, your tax liability covers the time span from the donor's death until your sale.

If you inherit a large holding of a single stock, it may be best to sell some or all of it to diversify your investments and minimize your risk. By selling the stock, you are also taking advantage of the new stepped-up cost basis.

- **IRAs:** If you inherit a spouse's IRA, you can roll it over into your own account with full tax deferral.

If you are the beneficiary of an IRA that is not from your spouse, opening an inherited IRA account will preserve the tax-deferred status of the account. An inherited IRA is a good choice if you don't need the money immediately or you want to avoid the taxes associated with taking a lump sum distribution.

There are several ways to help others while incurring the minimum in additional tax liabilities. You can gift individuals up to \$11,000 each year, or \$22,000 if you give jointly with your spouse.

If you pay directly for someone's education or medical bills, you can give an unlimited amount to cover these expenses. Additionally, you can donate to charity. You can typically deduct those donations on your itemized income tax return; however, you must be careful of the itemized deductions' amount if you are subject to the alternative minimum tax.

There's a lot to think about with unexpected wealth. Pull together a team of advisers to help manage your newfound wealth - an accountant, lawyer or financial adviser.

Develop a plan that takes into account your wishes and the smartest way to diversify your holdings and minimize your tax burden.

Ask what needs to be done now and what decisions you can postpone until you have time for further analysis.

With a bit of planning and expert help, your windfall can help ensure your financial future.

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