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**Abstract:** Receiving a sudden and sizable influx of cash may seem like a dream come true. It can be, but many people get carried away by a windfall and end up in worse financial shape. This article points out some of the pitfalls and how to avoid them, as well as what to expect in terms of taxes.

**Don’t get carried away by a windfall**

Receiving a sudden and sizable influx of cash may seem like a dream come true. It can be, but many people get carried away by a windfall and end up in worse financial shape. If you’re hit with a financial windfall, here are some points you should know.

**Risky conditions**

Perhaps the most obvious example is you may be tempted to immediately buy an expensive new car or home. Or fraudulent charities may come knocking. You can avoid these potential pitfalls by stashing your windfall in a bank or money market account as soon as you receive it. Let it sit there until you identify a few specific, reasonable goals — such as funding your retirement or a child or grandchild’s education. Waiting at least a month before you touch the money can help prevent impulse buys and other mistakes.

Also, you may owe taxes. Some windfalls, such as lottery winnings and certain legal settlements, are subject to federal tax — as much as 37% federal tax if your windfall pushes you into the top income tax bracket. State and local taxes may apply as well. A tax professional can help you determine what you owe.

**Shelter from the storm**

What you eventually decide to do with your windfall depends on many factors. If you have debt, you’ll probably want to pay it off ― especially if it carries a high interest rate and the interest isn’t deductible. Also, establishing or boosting your emergency savings can minimize the need to incur future debt.

Next, consider where you’d like to be five, 10 or 20 years into the future. Develop a budget that will help you move toward your goals — whether that means retiring early, starting a business or something else. You probably shouldn’t quit your job without having thought it through carefully. Few windfalls are large enough to see you all the way through retirement (depending on your age).

**Long-term plan**

A final word of warning: Be careful when you’re asked for money. Friends and family members may expect to share in your bounty or may pitch “sure-fire” investment opportunities. We can help you formulate a long-term plan to put a windfall to optimal use.

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