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Complete Guide

Inheritance Action Plan: What to Do With a Windfall in the First 12 Months

An inheritance feels like a financial event, but the first risk is usually decision quality, not portfolio design. In the opening months you may be grieving, coordinating with siblings, answering lawyers and custodians, and fielding opinions from people who do not understand the tax rules. This guide gives you a first-year operating plan: create a 90-day pause before major lifestyle changes, secure the assets, eliminate the most expensive debts, fund cash reserves, understand stepped-up basis and inherited-IRA rules, and only then decide what should be invested, sold, kept, or delegated. The goal is not to do everything fast. The goal is to make the irreversible choices once, with facts, deadlines, and the right professionals in the room.

1. Foundation

The most useful inheritance rule for ordinary households is the **90-day pause rule**. For roughly the first three months, do not quit your job, buy a bigger house, lend money to relatives, prepay a low-rate mortgage, or hand a full investment mandate to a stranger just because cash suddenly appeared. A pause is not inactivity. During the pause you still do the urgent work: secure physical property, forward mail, confirm insurance coverage on homes and vehicles, obtain multiple death certificates, change locks if necessary, collect account statements, and identify deadlines tied to probate, property taxes, and retirement accounts. The point is to separate true emergencies from emotionally driven moves. If a decision cannot be reversed cheaply, it usually does not belong in the first 90 days.

Once the assets are identified, treat the inheritance like a balance-sheet repair project before you treat it like an investing opportunity. Start with high-interest debt. Credit cards at 20% to 30%, unsecured personal loans, overdue tax balances, and payday-style debt create a guaranteed drag that is usually more urgent than a new brokerage

allocation. Next, fund or top up an emergency reserve. A solid baseline is three to six months of core expenses for stable salaried households and six to twelve months for variable-income families or anyone planning a job change. After debt and reserves, look at retirement accounts. You generally cannot pour inherited cash straight into an IRA beyond the annual contribution limits, and you still need earned income for IRA eligibility. What you can do is use the inheritance to support cash flow while increasing payroll deferrals to a 401(k), 403(b), HSA, or backdoor Roth process if those strategies fit your situation.

Tax handling is where many otherwise careful inheritors lose money. Taxable brokerage assets, real estate, and other appreciated property often receive a **stepped-up cost basis** at death, usually to fair market value on the date of death or, in some estates, an alternate valuation date if elected. That means unrealized gains during the decedent's lifetime may disappear for capital-gains purposes, but only if you preserve the documentation. Ask for date-of-death values from the custodian, transfer agent, or appraisal professional before anything is sold. If you inherit a house, collect the appraisal, closing documents, depreciation history if it was ever rented, and records of major improvements. Also check state-level taxes. There is no federal inheritance tax, but some states impose inheritance tax on beneficiaries and others impose estate tax based on the decedent's domicile or property location. Maryland, for example, has both an inheritance tax in some situations and an estate tax regime; Pennsylvania and Nebraska have inheritance tax rules; several other states apply estate tax at thresholds much lower than the federal exemption. State rules change, so confirm the current law instead of assuming the federal answer is the whole answer.

Inherited retirement accounts deserve their own review because the right move depends on who inherited the account, the decedent's age, and whether the beneficiary is a spouse, a non-spouse individual, a trust, or the estate. Under the SECURE-era framework, many non-spouse beneficiaries face a **10-year distribution window**, and if the original owner died after the required beginning date there may also be annual required minimum distributions in years one through nine before the account must be emptied by the end of year 10. Spouses may have more flexibility, including a beneficiary IRA, a rollover, or treating the account as their own depending on age and cash-flow needs. Bring in a **CPA** when the inheritance includes retirement accounts, concentrated stock, business income, a rental property, multiple states, or a large tax bracket decision. Bring in an **estate attorney** when there is a trust, contested beneficiary language, a disclaimer strategy, a special-needs beneficiary, a family business, or any doubt about title, probate, or fiduciary duties. In complex estates, the cost of good advice is usually smaller than one avoidable tax mistake.

2. Step-by-Step System

1

Create a 90-day decision buffer

Start by writing a short inheritance policy for yourself and any co-beneficiaries: no major purchases, no gifts, no investment overhauls, and no irreversible property decisions for 90 days unless the action is required to preserve value or meet a legal deadline. Then define the exceptions in writing. Acceptable exceptions usually include paying funeral costs, securing a vacant property, covering insurance premiums, paying estate administration expenses, satisfying tax deadlines, and moving money into the correctly titled inherited account before a custodian deadline creates a bigger problem. Everything else goes onto a parking-lot list. This single page is valuable because grief and urgency make every request sound important. If a sibling asks to "just decide the house now" or a friend pushes a hot stock idea, you can point to the process instead of improvising. During the same week, set up a digital folder with subfolders for legal documents, date-of-death values, property records, tax notices, advisor contacts, and beneficiary forms. A calm first month is mostly about building a reliable file cabinet and reducing the number of decisions you have to make from memory.

2

Inventory every asset, liability, and deadline

Make a master list with six columns: asset or liability, owner or title, current value, tax treatment, access path, and next deadline. Include cash accounts, taxable brokerage accounts, inherited IRAs or 401(k)s, real estate, vehicles, life insurance proceeds, annuities, business interests, debts owed by or to the estate, and any ongoing bills tied to the property. For each line, note whether it passes by beneficiary designation, joint ownership, trust, or probate, because that determines who can act. Ask each custodian for date-of-death values and confirm whether dividends, interest, or post-death gains are already being tracked. If real estate is involved, note the mortgage payment, vacancy risk, insurance renewal date, property-tax due date, HOA dues, and whether any repairs are required to avoid damage. If the inheritance is still moving through probate, list what you actually control today versus what is still pending. Good decisions depend on clean boundaries: inherited assets are not the same as expected assets, and estate bills should not be paid from your personal account without documentation and legal clarity.

3

Stabilize cash flow before you invest the windfall

Now rank your uses of cash by certainty of benefit. First are debts charging more than a reasonable expected after-tax investment return. In practice that usually means wiping out credit card balances, high-rate personal loans, and any delinquent obligations that could snowball into fees or legal trouble. Second is your emergency reserve. Move the reserve into FDIC- or NCUA-insured cash, Treasury bills, or another true short-term vehicle, not into a volatile stock fund just because the money feels like "extra." Third is insurance and protection: replace lapsed disability, umbrella, homeowner's, landlord, or health coverage if the inheritance exposes you to larger risks. Only after that should you decide how much of the remaining windfall belongs in long-term investments. If retirement funding is part of the plan, convert the inheritance into a contribution strategy by increasing paycheck deferrals, funding an HSA, or making annual IRA contributions from earned income while the inherited cash covers living expenses. This sequencing keeps the inheritance from disappearing into lifestyle inflation. It also makes a future investment plan more durable because you are investing from a position of stability instead of using the account as an emotional security blanket.

4

Handle inherited retirement accounts correctly

Before any retirement money moves, confirm three facts: the exact account type, the beneficiary classification, and whether the original owner died before or after their required beginning date. A surviving spouse may be able to roll the account into their own IRA, keep it as an inherited IRA for more flexible early distributions, or delay certain RMD consequences depending on age. A non-spouse beneficiary usually needs a properly titled inherited IRA such as "John Smith IRA (deceased 2/10/2026) FBO Jane Smith beneficiary," and generally cannot roll the money into a personal IRA. Under the SECURE framework, many non-spouse beneficiaries must empty the account by the end of the tenth year after death. If the owner died after starting RMDs, final IRS regulations may also require annual RMDs during years one through nine. Missing those calculations or the year-10 deadline can create avoidable tax friction. Keep inherited retirement assets separate from your own accounts, confirm withholding choices before any distribution, and document whether the account is traditional or Roth. When several beneficiaries are involved, ask the custodian how separate inherited IRAs must be established so each beneficiary can follow the right rule set.

5

Capture basis, tax, and property decisions before selling anything

Do not sell inherited stock, mutual funds, or real estate until you know the tax basis and the reporting path. For securities, compare the custodian's basis records with the date-of-death statement and save both. For a house, get a written appraisal close to the date of death even if you think you will keep it. That appraisal is often the number you will need later if you sell, convert the property to a rental, or divide value among siblings. If the property was partly used as a rental or home office, ask a CPA how prior depreciation affects your basis. At the same time, review state tax exposure. If the decedent lived in a state with inheritance or estate tax, or owned property in another state, ask whether a filing is required even if no tax is ultimately due. This is also the moment to decide whether an inherited house should be sold, rented, or retained. Compare net sale proceeds after repairs and closing costs, realistic rental cash flow after maintenance and management, and the personal cost of becoming an accidental landlord. A clear spreadsheet beats sentimental guesswork.

6

Build the 12-month implementation calendar

After the first 90 days, turn the inheritance into a dated plan. Schedule one decision review for each major category: debt payoff, emergency reserve funding, retirement contribution changes, inherited IRA distributions, property actions, and tax-prep milestones. Then attach responsible parties. Your CPA should receive the asset inventory, all date-of-death values, any sale documents, and notes on inherited retirement accounts well before tax season. Your estate attorney should receive the trust or will, probate filings, title questions, and any proposed disclaimer or beneficiary dispute. If you kept appreciated assets, set quarterly reminders to review diversification and cash needs rather than reacting to market headlines. If you inherited a house, add reminders for insurance renewal, tax bills, maintenance, and lease review if rented. Finally, update your own beneficiaries, estate documents, and household file organization. A well-handled inheritance should improve your family's resilience, not leave the next generation with the same chaos. By month 12, you want fewer loose ends, clearer documentation, and a repeatable process for anything that still needs attention.

3. Key Worksheets & Checklists

Use these working pages while you move from triage to execution. Fill them out with live balances, real due dates, and names of actual professionals rather than placeholders. The value is not in creating a perfect spreadsheet; it is in forcing every major inheritance decision onto one page where taxes, liquidity, deadlines, and family responsibilities can be seen together.

1. First-Year Allocation Worksheet

Primary objective	Protect the inheritance in the first 12 months by pairing a 90-day pause with a written sequence for debt payoff, reserves, tax review, and long-term investment decisions.
Pause end date	Write the exact date your 90-day decision buffer ends, plus the limited exceptions you will allow before then.
High-interest debt list	Record each balance above your acceptable rate threshold, the interest rate, required payment, and the payoff amount needed to eliminate it.
Emergency reserve target	State the number of months of core expenses you want in cash and the account where that reserve will sit.
Retirement funding plan	List the annual 401(k), IRA, and HSA contribution targets you can support by using inheritance cash to free up paycheck deferrals.
Inherited IRA deadline	Note the beneficiary type, whether annual RMDs apply, and the final year the account must be emptied.
Basis records	List every inherited asset that needs a date-of-death value, appraisal, or basis statement before a sale.
State tax review	Write the decedent's state of residence, any out-of-state property, and whether inheritance or estate tax filings may apply.
Advisor team	Name the CPA, estate attorney, realtor, appraiser, or fiduciary advisor involved and the question each person owns.

2. Execution Checklist

- Obtain multiple certified death certificates and store digital copies of every statement, beneficiary form, and legal document in one folder structure.
- Write and share a 90-day pause policy before family pressure or sales pressure starts to distort the plan.
- List all estate bills that are genuinely urgent, and keep them separate from non-urgent personal spending ideas.
- Pay off high-interest consumer debt before building a new taxable investment portfolio with the same inheritance dollars.
- Move the emergency reserve to a true cash vehicle and define the target in months of expenses, not in vague terms like "a comfortable amount."
- Request date-of-death values or appraisals for every inherited security and every piece of real estate before any sale is placed.
- Confirm whether each retirement account is traditional or Roth, whether the beneficiary is a spouse or non-spouse, and whether annual RMDs apply inside the 10-year rule.
- Ask the CPA about capital gains, income tax on inherited retirement distributions, and state inheritance or estate tax filing duties.
- Ask the estate attorney about title transfers, probate authority, trust language, disclaimers, or disputes before money is moved informally.
- Update your own beneficiary designations and household estate documents after the inheritance is under control.

3. 12-Month Implementation Timeline

Window	Primary action	Evidence complete
Days 1-14	Secure property, collect death certificates, notify custodians, and build the asset-and-deadline inventory.	One master list exists with balances, titles, contacts, and due dates.
Days 15-30	Request all date-of-death values, confirm insurance coverage, and define the 90-day pause exceptions.	Basis records requested and family decision policy written down.
Months 2-3	Eliminate high-interest debt, fund the emergency reserve, and set payroll deferral changes for retirement accounts.	Debt balances reduced, reserve funded, and contribution changes submitted.
Months 3-4	Transfer inherited IRA assets to correctly titled beneficiary accounts and confirm year-10 and RMD deadlines.	Custodian confirmation and written beneficiary rule summary saved.
Months 4-6	Decide on inherited real estate, concentrated stock, or business interests after tax and cash-flow review.	Sell, keep, or rent decision documented with numbers and advisor input.

Window	Primary action	Evidence complete
Months 7-9	Prepare for tax filings, estimate distribution income, and rebalance any long-term investment allocation.	CPA has all records and estimated taxes or withholdings are updated.
Months 10-12	Close loose ends, document remaining review dates, and update your own estate plan and beneficiary designations.	Annual review calendar scheduled and household file fully updated.

4. Common Mistakes

Investing first and fixing the balance sheet later

A windfall invested into index funds while 24% credit card debt and a thin emergency reserve remain in place is not sophisticated; it is disorder with a brokerage login. The inheritance becomes far more useful after it removes guaranteed financial drag and reduces the chance that you will need to sell investments in a crisis.

Selling inherited assets without basis records or state-tax review

People often assume the custodian or closing attorney will keep everything forever. Then a sale happens years later and the date-of-death value is hard to prove. Save appraisals, valuation statements, and correspondence now, and confirm whether the estate or beneficiary has any state inheritance or estate filing requirement before declaring the matter finished.

Mishandling inherited IRA transfers and deadlines

Taking possession of retirement money before the account is correctly titled, mixing inherited assets with your own IRA, or assuming year 10 is the only deadline can trigger unnecessary taxes and administrative problems. Always confirm beneficiary status, account titling, and annual RMD requirements before the first dollar moves.

Waiting too long to involve a CPA or estate attorney

Professional help is not only for the ultra-wealthy. A rental house, a trust, a business interest, multiple siblings, or a multi-state estate can create tax and legal issues that are expensive to unwind. Bring in specialists early enough that they can prevent the error instead of merely describing it after the filing deadline passes.

5. Next Steps

Your next move should be operational, not theoretical. Put the pause-end date, debt payoff date, emergency-fund target, inherited-IRA deadline, and CPA handoff date on one calendar before you close this page. If the inheritance changed your monthly cash flow, update your household spending plan and automate the retirement contributions you decided on rather than relying on memory.

Then schedule one annual inheritance review. Confirm that basis records are still saved, remaining inherited retirement accounts are on pace for the right distribution schedule, and any property or investment decisions still match your actual life. For follow-on planning, revisit [the Budget Calculator](#) and keep [the tools hub](#) bookmarked for the next round of decisions.

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