Windfalls and Installment Plans: How to Protect Your Assets When You Suddenly Hit the Jackpot

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Not everyone can hope to be as lucky as the recent winner of the historic Mega Millions $1.58b billion jackpot. However, surprise windfalls can happen to anyone at any time. You might receive a large inheritance from a long-lost relative, discover a priceless work of art in your attic, or receive a big offer from a Fortune 500 company for your latest invention.

Sudden wealth comes with potential pitfalls. There are innumerable stories of lottery winners who blew it all due to reckless spending, unwise investments, and greedy relatives.

Surprise windfalls can be a blessing or a curse, depending on how you invest and plan. By leveraging specific estate planning techniques such as trusts, you can minimize the tax bill on newly acquired wealth and lay the foundation for a legacy that will last after you have gone.

Here are a few tips to keep in mind if you are fortunate enough to purchase a winning lottery ticket or experience a similar bonanza.

Don't take it all in one lump sum.

Receiving winnings or distributions through a stream of payments over a number of years will make it a little easier for you to get used to handling large sums of money, especially if you have not had prior experience with inherited wealth or massive earnings,

Installments make it more difficult to spend all of your money in one place.

Large sums of cash can be enormously life-changing; it is essential to grow accustomed to your new circumstances, understand your options, and educate yourself before you make critical financial decisions.

Stay anonymous and avoid publicity.

Some lottery winners reside in states where their identities can become public after a designated amount of time. For example, in Florida, lottery winners of $250,000 or more may stay anonymous for up to 90 days after claiming their winnings; after that, the Florida Lottery by law must hand over any information that is requested, such as the winner's name, city of residence, game won, date won, and the amount. This includes responding to inquiries from members of the press.

Although your instinct may be to share your great news, it's important to preserve your anonymity as long as possible. Restrain the urge to announce your largesse on social media, where it could garner unwanted attention and even put you and your family in jeopardy.

Talk to a lawyer.

Lottery winners are required to pay income tax on their winnings. There is also a flat 40 percent estate tax in the United States.

Some states – like New York – also have a state estate tax.

Even if you give away your windfall, you may also be liable for gift taxes.

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An estate planning attorney can help you with trusts and other structures to protect your funds and invest them so that the money will last for generations.

They can also help with pre- and even post-nuptial agreements to protect you in the case of a divorce, where your spouse might be entitled to up to 50 percent of your windfall if it occurred during the marriage.

Protect your assets.

Creditors could have a claim to your newfound wealth if you fail to protect it.

Some states, such as Delaware, South Dakota, and Wyoming, permit the creation of trust instruments that shield assets from claims by creditors.

Gifts can also be used to remove your funds from creditors' reach. However, once you gift someone else your assets, you lose any rights to them.

A trust is the best way to safeguard your assets while maintaining your ability to access them when needed.

However, even a trust cannot protect your windfall from debts accumulated before you hit it big.

Identify your goals.

Before making any decisions on gifting, trusts, and other estate plans, take a look at your long-term goals and priorities.

Do you want to make sure your children's educations are paid for? Do you want to live in Europe? Do you want to make sure your parents always have a roof over their heads? Do you want to support your favorite museum or charitable cause?

Once you decide how you want to live and allocate your resources, you can then discuss with trusted counsel how to leverage these techniques in order to accomplish your goals and dreams.

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