

How to Handle a Windfall?

This document contains important information and you should read it carefully and keep it safe for future reference.



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What is a windfall?

A windfall is an unexpected or unplanned financial gain, often received suddenly. Receiving a windfall, whether from an inheritance, lottery win, sale of a property or any other form of unexpected financial gain, can be life changing. While it presents exciting opportunities, managing a significant sum of money, possibly for the first time, requires careful planning and disciplined decision-making to ensure long-term financial security. This guide will help you to understand how to handle a windfall responsibly and make the most of your new found wealth.

What should I do first?

One of the most crucial steps in handling a windfall is to assemble a team of trusted professionals.

First and foremost, you should consult with a qualified financial adviser. They can help you assess your financial situation, set goals, and develop a comprehensive plan tailored to your needs. Your adviser will also help you avoid common mistakes, such as overspending or underestimating tax liabilities.

Given the potential tax implications of a windfall, it's essential to work with a tax adviser who can help you navigate the complexities of UK tax law. They can provide guidance on how to structure your finances in a tax-efficient manner, helping you to minimise your tax burden.

Engaging a solicitor is also advisable, particularly if your windfall involves an inheritance or the sale of a business. A solicitor can assist with estate planning, trusts and ensuring that all legal aspects of your windfall are handled properly.

The Financial Conduct Authority does not regulate tax advice.

What can I do with the money?

When you receive a large sum of money, it can feel overwhelming.

The most important thing is not to rush into anything, but to take the time to consider what you want to achieve with this new found wealth.

There are a number of ways in which a windfall can contribute to achieving your financial goals. For example, you could:

- Pay off debt
- Overpay on your mortgage (note: this may incur a charge)
- Contribute the annual allowance to your pension
- Pay into one or more forms of ISA
- Begin or continue investing
- Purchase property
- Build an emergency fund
- Gift to family and/or friends
- Save for retirement or towards another goal such as supporting a child through further education.
- Treat yourself! Within reason...

Receiving a windfall can be a transformative event, but managing it wisely is essential to ensuring your financial security and making the most of your money.

Understand the tax implications

If your windfall generates income, such as interest from savings, dividends from investments or rental income from property for example, it will be subject to tax on an ongoing basis. Understanding how this additional income affects your tax bracket and planning accordingly is essential to avoid unexpected tax bills.



Interest income

Savings accounts and fixed-rate bonds typically generate interest, which is taxable. The Personal Savings Allowance allows basic-rate taxpayers to earn up to £1,000 of interest tax-free (£500 for higher-rate taxpayers). Any interest earned above this threshold will be subject to income tax at your marginal rate.



Capital Gains Tax (CGT)

If your windfall includes assets like property, shares, or other investments, any increase in their value may be subject to Capital Gains Tax when you sell them. The CGT allowance for the 2025/26 tax year is £3,000, with gains above this amount taxed at 18% for basic-rate taxpayers and 24% for higher-rate taxpayers. For residential property, the rates are 18% and 24%, respectively.

It's essential to engage in ongoing tax planning to manage your windfall effectively. This may involve tax-efficient investments, utilising allowances and potentially setting up trusts to mitigate future tax liabilities.



Dividend income

If you invest in shares, any dividends you receive will be taxed. For the 2025/26 tax year, the dividend allowance is £500, with dividends above this amount taxed at 8.75% for basic-rate taxpayers, 33.75% for higher-rate taxpayers, and 39.35% for additional-rate taxpayers.

Set clear financial goals

Start by identifying your short-term financial goals, such as paying off debt, creating an emergency fund or making a significant purchase. Your financial adviser can help you to prioritise these goals and create a plan to achieve them without compromising your long-term financial health.

It is also important to set or reconsider your long-term goals such as retirement planning, funding your children's education or leaving a legacy. Work with your adviser to establish these goals and develop a strategy to ensure that your windfall supports them.

If leaving a legacy is important to you, consider how you can use your windfall to benefit future generations. This might involve setting up trusts, making charitable donations or planning for the inheritance you'll pass on.

Even with a significant windfall, it's important to create and stick to a budget. This helps you to manage your cash flow, avoid overspending and ensure that your wealth is sustainable over the long term. Set aside a portion of your windfall in a liquid, low-risk account as an emergency fund to cover unexpected expenses. You should also create a budget that accounts for any change to your lifestyle, regular expenses, discretionary spending as well as savings or investment contributions.

Common types of windfall

Receiving an inheritance

Receiving an inheritance can be both a financial blessing and an emotional experience, especially if it follows the death of a loved one. Normally once you have received the inheritance it means that any inheritance tax has already been paid, however, this is not always the case, therefore, utilising the support of a financial adviser during this time can be essential.

It's important not to rush into financial decisions while you're still processing grief. Avoid making any major financial decisions immediately. Take time to grieve and adjust before determining what to do with the money or assets that you've inherited. If possible, park the money in a safe, accessible account (like a savings account) until you're ready to make thoughtful financial decisions.



Getting a bonus at work

Receiving a large bonus at work can be an exciting financial boost, but it also comes with important financial considerations. In the UK, a bonus is treated as part of your overall income and is subject to taxation, just like your regular salary. Here's what you can expect:

Income tax:

Your bonus will be taxed based on your marginal income tax rate. In the 2025/26 tax year, the UK rates excluding Scotland are:

- Basic rate (20%) for income between £12,571 and £50,270.
- Higher rate (40%) for income between £50,271 and £125,140.
- Additional rate (45%) for income over £125,140.

If your bonus pushes you into a higher tax bracket, a portion of it will be taxed at a higher rate.

National Insurance Contributions (NICs):

Like your salary, bonuses are subject to NICs. For employees, NICs are 8% on earnings between £12,570 and £50,270, and 2% on earnings over that amount.

Pension contributions:

Some employers automatically contribute a portion of your bonus to your pension scheme. This is beneficial as it can reduce your taxable income while boosting your retirement savings.

If your bonus pushes your annual income above certain thresholds, it could affect your eligibility for benefits or allowances, such as:

- **Personal allowance:** Your Personal Allowance (the amount of income that you can earn before paying tax) is reduced by £1 for every £2 you earn over £100,000. If your bonus pushes your income over this threshold, you may lose part or all of this allowance.
- **Child benefit:** If your income exceeds £60,000, you have to pay a tax charge on any Child Benefit received, and if your income exceeds £80,000, then you lose all of the benefit.

Some employers allow you to direct a portion of your bonus to different savings or investment schemes, such as:

- **Salary sacrifice:** Some companies offer salary sacrifice schemes where you can direct a portion of your bonus into a tax-efficient arrangement, like pension contributions, reducing your taxable income.
- **Bonus saving schemes:** Certain companies provide incentives for saving your bonus through company-backed schemes, which may offer bonuses on top of your own savings or match contributions.

Winning the lottery

We'd be lying if we said we'd never dreamt of what we would do with a lottery win. A bigger house, fancy car, luxury holidays... but if your reality is that you have won the lottery, while it's tempting to make big purchases or significant lifestyle changes right away, handling this wealth thoughtfully can ensure that your windfall lasts in the long-term. That's not to say don't enjoy yourself, but utilising the support of a financial adviser will allow you to make sure that you are planning for the future, as well as living in the now.

Sudden wealth through a lottery win can sadly make you a target for fraud or financial mismanagement so it is important to take steps to protect your assets and your personal security. Be cautious about sharing details of your win. If you go public, work with professionals to protect your privacy.

As a lottery winner, you may also need to file a self-assessment tax return if your income exceeds certain thresholds or if you have complex tax affairs which is why it is essential to draft in the support of a financial adviser or a specialised tax adviser.

Have you sold your business?

Selling a business is often the culmination of years of hard work and the resulting windfall is the reward. Whether you're planning for early retirement, reinvesting or looking to generally secure your financial future, it's important to handle this wealth carefully.

Selling a business often comes with complex tax implications, especially capital gains tax (CGT). In the UK, when you sell a business, you may owe CGT on the profit from the sale. The rate depends on whether you qualify for Business Asset Disposal Relief (BADR), formerly Entrepreneurs' Relief, which can reduce your tax liability significantly. The CGT rates increased on 30th October 2024 from 10% to 18% if you are a basic-rate taxpayer and from 20% to 24% if you are a higher or additional rate taxpayer.

However, most business owners aim to qualify for BADR, which reduces the CGT rate in the 2025/26 tax year to 14% on gains of up to £1 million over your lifetime. From 6th April 2026 this will further increase to 18%.

There are other ways to minimise your CGT liability when selling a business. If you've made any losses on other assets, you can offset these against your gain to reduce your taxable amount. You can also transfer ownership of some of your shares to a spouse or civil partner, allowing you to benefit from their annual CGT allowance and potentially pay CGT at a lower rate. Consulting with a tax adviser or financial adviser is essential to ensure that you're making the most of available tax reliefs and allowances.

Receiving a windfall can be a transformative event, but managing it wisely is essential to ensuring your financial security and making the most of your new found wealth. Managing a windfall is not a one-time task. It requires ongoing review and adjustment to ensure that your financial plan remains aligned with your goals and circumstances. Regular meetings with your financial adviser will help you stay on track and make any necessary adjustments. By taking your time and seeking professional advice, you can create a solid financial plan that secures your future. Remember, a windfall is a rare opportunity and careful management will allow you to enjoy its benefits for years to come.

Your capital is at risk. The value of your investment (and any income from them) can go down as well as up and you may not get back the full amount you invested. Thresholds, percentage rates and tax legislation may change in Finance Acts. Reliefs from taxation and their value depends on an individual's personal circumstances.

The Financial Conduct Authority does not regulate Trusts, Tax Planning or employee benefits.

