

Most people are relieved when they learn that inheriting \$100,000 usually does not trigger a big tax bill the moment the money arrives. The catch is that the details matter a lot: what you inherit, how it is titled, and what you do with it afterward can change the tax result dramatically.

I am going to focus on federal rules and how they interact with California law, then branch into the practical questions clients ask when they are actually sitting in front of me with an inheritance or an aging parent. Along the way, I will touch the related estate planning questions that almost always come up in the same conversation: wills, trusts, Medi-Cal / Medicaid rules, and the “5 by 5” and “5-year” rules people see online.

The short answer: inheriting \$100,000 in cash in California

If you inherit \$100,000 in pure cash from a parent or other relative, and you live in California, you typically pay **no federal income tax and no California income tax on that inheritance itself**.

You might still pay tax later on what that money earns. Interest, dividends, capital gains, or business income generated from investing or using that \$100,000 will be taxable going forward, just as if you had saved it from your paycheck.

There is also generally no federal estate tax on an estate that is small enough that each beneficiary is getting \$100,000. For deaths in 2024, the federal estate tax exemption is \$13.61 million per person. Even when an estate is larger than that, the estate, not the beneficiary, typically pays the estate tax before assets are distributed.

California does not have its own estate tax or inheritance tax at the time of writing. So, for a straightforward cash inheritance, the answer to “How much tax do you pay if you inherit \$100,000?” is usually: zero at the time you receive it.

Things get more complicated when that \$100,000 is **inside** a retirement account, a trust, or a piece of real estate. That is where most of the traps lurk.

Federal tax rules on inheritances: what is and is not taxable

The federal system makes a basic distinction between:

- A transfer of wealth at death (which is a gift, not income), and
- Future income or gains generated by that wealth.

That shapes nearly every inheritance question.

Estate tax vs inheritance tax

In the United States, the federal government uses an **estate tax**, not an inheritance tax. The tax, if any, is imposed on the decedent’s estate before assets go to heirs or beneficiaries.

Because the federal exemption is so high, most families never pay it. For context, in recent years you would not see estate tax unless total assets exceeded roughly \$12 to \$14 million, depending on the year. Many people read about the “7 year rule on inheritance” or “7 year rule for trusts” online, which actually comes from the United Kingdom’s inheritance tax system. That rule does **not** apply under U.S. Federal law or California law.

When people ask “Do trusts avoid inheritance tax?” in the U.S. Context, they are usually mixing regimes. Properly designed irrevocable trusts can help reduce **estate tax** for very large estates, but there is no separate federal

inheritance tax to avoid.

Income tax and the step-up in basis

For non-retirement investments, the most important federal rule is the **step-up in basis**. When you inherit stocks, mutual funds, or a rental property, your tax basis generally becomes the **fair market value on the date of death**, not what the deceased originally paid.

That means if your father bought Apple stock for \$5,000 and it is worth \$100,000 when he dies, you inherit at a basis of \$100,000. If you sell it for \$100,000 shortly after, you likely owe **no capital gains tax**. If you hold it and it later rises to \$120,000, then only the \$20,000 growth after death is potentially taxable.

This step-up is one reason inherited taxable investment accounts are rarely in the category of the “worst assets to inherit.” They can actually be among the most tax-efficient assets to receive.

Retirement accounts and the 10-year (and 5-year) rules

Retirement accounts are different. With traditional IRAs, 401(k)s, and similar plans, the deceased often enjoyed a tax deduction when contributions went in. The IRS expects to collect its tax when distributions eventually come out.

If you [California Estate Planning](#) inherit \$100,000 in a **traditional IRA**:

- You do not recognize income simply because you were named beneficiary.
- You usually must take that money out on a schedule and pay **ordinary income tax** as you draw it.

For many non-spouse beneficiaries, current law uses a **10-year rule**: the account must be emptied by the end of the 10th year after death, with some exceptions for “eligible designated beneficiaries” like minor children, certain disabled beneficiaries, and close-in-age beneficiaries.

You may still see references to a **5 year rule for a trust** or for IRAs. Historically, the 5 year rule could require that the entire inherited IRA be distributed within 5 years when no individual beneficiary was properly designated, often where a trust or estate was the named beneficiary and did not qualify as a “look-through” trust. These rules are very technical, and they intersect with trust drafting. In practice, I see a lot of grief created by sloppily named beneficiaries and outdated trust language that accidentally triggers shorter payout windows and higher income tax bills.

For **Roth IRAs**, beneficiaries often still face a 10-year distribution deadline, but distributions are generally income-tax-free if the account met the usual Roth aging requirements. That is part of why traditional IRAs are often mentioned among “the six worst assets to inherit,” while Roth IRAs are far more attractive.

Trust taxation at the federal level

Trusts add another layer. A revocable living trust is typically ignored for income tax purposes while the creator is alive. After death, that trust may become a separate taxpayer.

Trust tax brackets are compressed. A modest amount of undistributed income can push the trust into the highest federal bracket. So when clients ask “What taxes do trusts avoid?” the honest answer is: they **do not** avoid income tax at all. If anything, an irrevocable trust can increase income tax if it retains earnings instead of distributing them to beneficiaries.

Trusts can, however, avoid **probate**, and, in large estates, help reduce **estate tax** if designed and funded correctly.

California's role: no inheritance tax, but plenty of other rules

California, at least for now, is friendlier than many states on transfer taxes. The problems in California tend to be **probate** and **property tax**, not inheritance tax.

No California inheritance or estate tax

California does not impose its own inheritance tax or estate tax. So whether you inherit from someone in California, or you are a California resident inheriting from another state, you usually only need to think about:

- Federal estate tax for very large estates, and
- Federal and California income tax on future earnings or required distributions.

That said, California's laws heavily influence **how** assets move at death and how long it takes you to access that \$100,000.

Do all wills in California have to go through probate?

Not every will leads to a court probate, but many do. California looks at the **value of assets that are subject to probate**, not the total size of the estate in a vague sense.

Assets that avoid probate include:

- Accounts with properly completed beneficiary designations (think IRAs, 401(k)s, life insurance, and many brokerage accounts).
- Bank accounts labeled "payable on death" (POD) or "transfer on death" (TOD), and some joint accounts.

These "which bank accounts avoid probate" techniques can move money directly to beneficiaries without court involvement, but they also bypass the will and sometimes the overall estate plan. I have seen more than one adult child surprised to learn that a sibling got a six-figure account outright by POD designation, while everything else went through a carefully drafted trust.

If an estate owned real estate in the decedent's name alone, or held non-beneficiary accounts over the small-estate threshold, a probate is usually required. A will does not avoid probate in California, it simply **guides** it.

What happens if you do not file probate in California?

Ignoring probate is not a harmless choice. If a probate is required and no one files:

- The title to real property can remain "frozen," preventing sale or refinance.
- Financial institutions may hold accounts indefinitely.
- Statutes of limitation for creditor claims and tax matters may remain open longer than anyone expects.

If you are the one inheriting the \$100,000 from an estate that needs probate, you may wait quite a while before you see a dime.

Why do you have to wait 10 months after probate?

Clients often ask about the "10 months after probate" waiting period. California has creditor claim windows and practical realities. Even after you receive your share, the executor or trustee may hold back a reserve for taxes and unknown debts. The combination of court schedules, notice periods, and tax filings can easily stretch to 10 months or more before final distributions.

That delay is another reason many Californians lean toward revocable living trusts. A well-drafted and properly funded living trust usually avoids court probate entirely, which can mean less delay and lower administrative cost. But a trust is not magic, and it brings its own complexity and potential downsides.

How the type of asset changes your tax bill on \$100,000

The phrase “inherit \$100,000” can describe very different tax outcomes, depending on where that \$100,000 sits. It helps to think in categories.

Here is a compact reference that tracks what I see in practice:

1. Cash in a bank account or check from the estate: Usually no tax on receipt. Future interest is taxable.
2. Taxable investment account: Step-up in basis at death. Capital gains only on post-death growth when you sell.
3. Traditional IRA / 401(k): No tax when you are named beneficiary, but ordinary income tax as you take distributions, often under a 10-year rule.
4. Roth IRA: Typically no income tax on qualified distributions, but still subject to payout rules.
5. Life insurance death benefit: Usually income-tax-free to the beneficiary, but large policies can factor into estate tax for very big estates.

That rough sketch already explains why some professionals talk about “the worst assets to inherit.” The phrase usually refers to items that carry **built-in tax or liability problems**, such as:

- Large traditional IRAs with no Roth conversions done.
- Deferred compensation plans that pay out rapidly and spike income.
- Highly appreciated property in jurisdictions that do **not** offer a reliable step-up (not California, but relevant nationally).
- Timeshares and certain limited partnership interests that cost more in fees than they are worth.
- Closely held business interests with ongoing liability or underfunded taxes.

The “six worst assets to inherit” lists you see online are usually variations on this theme: tax-heavy, cash-poor, or liability-prone holdings that look valuable on paper but are painful in practice.

Wills, trusts, and common California mistakes

The way assets are structured often matters more than what the tax law technically says. I see the same planning errors result in either unexpected tax or expensive clean-up for survivors.

Is it better to have a will or a trust in California?

For many California homeowners, a well-funded **revocable living trust** generally works better than relying on a will alone. The reasons are practical:

- Avoidance of expensive and slow probate for real estate.
- Smoother management during incapacity.
- More flexible control over how and when beneficiaries receive their inheritance.

That does not mean a trust is always “better than a trust” alternative like direct beneficiary designations or pay-on-death accounts. Often, the best planning layers tools. For modest estates comprised mostly of retirement accounts and life insurance with clean beneficiary designations, a simple will and updated forms can be enough.

What are the biggest mistakes people make with their will?

The most common inheritance mistake I see is not any single legal clause, it is **inaction**. People sign a will or trust, then never update it while their finances, family structures, and tax laws change.

When forced to pick specific errors, some of the worst include:

- Relying solely on a will in California while owning real estate in your own name, which almost guarantees probate.
- Naming minor children outright as beneficiaries instead of setting up a trust for them.
- Failing to coordinate beneficiary designations on retirement accounts and life insurance with what the will or trust says.

In the “three things to avoid putting in a will” category, I usually point out: detailed funeral instructions that no one will see in time, items already controlled by beneficiary designation (retirement accounts, life insurance), and vague promises about caring for a family business that is not backed by clear ownership documents.

Do all California living trusts work as advertised?

No. Clients often ask about “the downside of a living trust in California,” and some of those downsides are self-inflicted.

A few of the genuine disadvantages of putting your house in a trust, or more broadly, of using a revocable living trust, include:

- Upfront cost and paperwork to set it up and fund it.
- Ongoing need to retitle new assets into the trust, which many people forget.
- A false sense of security: people think a revocable trust protects assets from creditors or nursing homes. It does not. You still control the trust, so your creditors and Medi-Cal generally can reach those assets.

The downside of having a trust also appears when it is poorly drafted. Common mistakes people make with trusts include naming the wrong trustee, using vague distribution standards, or loading the trust with assets that do not belong there, such as qualified retirement accounts that are better controlled by beneficiary designation.

What should you not put in a trust?

There are some categories that usually should **not** be retitled to a living revocable trust:

- Most employer retirement plans, like 401(k)s, which often must stay in the participant’s name.
- Certain vehicles where retitling would cause insurance or financing headaches.
- Everyday checking accounts needed for bill-pay, where the cost and hassle of putting them in trust exceeds the probate risk.

You can still have your trust receive these assets **by beneficiary designation** at death when appropriate. That is different from changing the current ownership.

The “5 by 5” rule, the 5-year and 2-year rules, and other jargon you see online

Estate planning jargon spreads quickly, often without context. Let me briefly translate some of the phrases people bring to meetings.

What is the 5 by 5 rule in estate planning?

The “5 by 5 rule” or “5 of 5000 rule in trust” refers to a **power of withdrawal** many trusts grant to beneficiaries. It allows a beneficiary each year to withdraw the greater of:

- 5 percent of the trust principal, or
- \$5,000.

Used correctly, this provision can help with gift tax rules and ensure that property subject to that power is treated as belonging to the beneficiary for certain tax purposes. Used carelessly, it can hand a spendthrift beneficiary a larger check than anyone intended.

The 5-year rule on trusts and Medicaid lookback

People often confuse three different “5 year” concepts:

- Old 5-year distribution rules for retirement accounts when no individual beneficiary was named.
- The **Medicaid 5 year lookback**, which applies to transfers made before applying for long-term care Medicaid (Medi-Cal in California’s terminology).
- Informal rules of thumb about how long to keep a trust running after someone dies.

For Medi-Cal, California is subject to the same federal Medicaid 5 year lookback that other states face. If you give assets away or move your house into certain irrevocable trusts within 5 years of needing nursing home coverage, those transfers can trigger penalties. If you want to avoid problems, you need to learn how to avoid the Medicaid 5 year lookback with legitimate planning, not last-minute transfers.

A standard revocable living trust does **not** protect your home from Medi-Cal estate recovery or nursing home costs. So when people ask, “Can I lose my home if my husband goes into a nursing home?” the answer is: possibly, depending on your state’s rules, the type of trust, and when planning was done. In California, the law has evolved, but there is still real risk for families that do not plan until it is too late.

The 2-year rules after death or for trusts

I also hear about “the 2 year rule after death” and “the 2 year rule for trusts.” Those phrases get used loosely.

Sometimes they refer to:

- Rough expectations for when an estate or trust should be substantially administered.
- Insurance or wrongful death claim limitation periods around 1 to 2 years.
- In some countries, specific 2-year rules for certain tax benefits, which people then import into U.S. Discussions.

In U.S. Federal tax law, more important deadlines are often **9 months** or similar (for example, the deadline to file an estate tax return or a qualified disclaimer, with some extensions). If you are counting on a “2 year rule” you read about online, double-check that it actually applies to your situation.

Nursing homes, houses, and trusts

For many families, the house is the single biggest asset. People worry that nursing home costs will “take the house,” and they consider extreme moves like selling a house to a child for \$1.

Can a nursing home take your house if it is in a trust?

If the house is in a **revocable living trust** that you control, it is still your asset for Medicaid / Medi-Cal purposes. The nursing home itself does not “take” the house, but the state can seek recovery for benefits paid after your death, or count the house when deciding eligibility.

An **irrevocable trust** set up well in advance, with properly drafted terms and no retained control by you, can offer more protection. That is the essence of many Medicaid planning strategies. But shifting a home into an irrevocable trust within the 5-year lookback window can cause more harm than good.



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an is made this _____ day of _____
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Married couples ask, “Can I lose my home if my husband goes into a nursing home?” U.S. Law provides some protections for a “community spouse,” but those protections are technical, and they depend heavily on state rules. California is generally more protective of the spouse at home, but not absolute.

Is it wise to put your house in a living trust?

For Californians, placing your house in a **revocable living trust** is often wise to avoid probate and to simplify management if you become incapacitated. It does not usually change your property tax base and, when drafted correctly, does not affect the capital gains exclusion on sale of a primary residence.

The disadvantages of putting your house in a trust are more about administration:

- You must re-title the property and keep records current.
- Refinancing can require temporary retitling.
- Family members can be confused about who owns what.

Still, when I am asked “What is the best way to leave your house to your children?” a properly designed and funded living trust is often at the top of the list for California homeowners, ahead of strategies like selling the

house to a son for \$1, which creates **gift tax issues** and saddles the child with your low basis and potentially large capital gains when they sell.

Beneficiaries, trusts, and avoiding family blow-ups

Who you name as beneficiary and how you structure inheritances matter at least as much as the tax angle.

Who should I not name as a beneficiary?

Every family is unique, but some general cautions:

- Directly naming minor children without a trust usually forces a court guardianship or blocked account until they turn 18.
- Naming someone who receives means-tested benefits can disqualify them unless a special needs trust is used.
- Naming an ex-spouse or someone with a history of addiction or financial chaos can undermine your intent.

A trustee can also be a beneficiary. The question “Can a trustee also be a beneficiary?” comes up often. The answer is yes, but there must be enough structure around that dual role to prevent abuse or family suspicions. For example, one child can serve as trustee and also receive an equal share, provided distributions are guided by clear standards and there is transparency.

What is the best way to leave inheritance to your children?

The best method depends on their age, responsibility level, and your asset mix.

For young or financially inexperienced children, a trust that staggers distributions over time, or that supplements their lifestyle instead of handing them a lump sum, can work well. For independent adult children, outright inheritances from properly titled accounts and a well-drafted will or living trust may be sufficient.

Often, the **worst assets to inherit** from a child’s perspective are not the tax-heavy ones, but the assets tied to emotional expectations and unclear instructions: a family business no one wants to run, a vacation home with no maintenance fund, or a piece of land that cannot easily be sold.

Practical guidance after someone dies

The tax and legal rules are only part of the story. What you do in the first few weeks after a death can protect or derail your eventual inheritance.

Here is a short list of actions and non-actions that tend to protect families, in my experience:

1. Do not rush to close or retitle financial accounts before you understand how they are owned and who is named as beneficiary.
2. Avoid large, impulsive spending or gifting from inherited funds until you have a basic tax and estate planning check-in.
3. Gather key documents quietly: wills, trusts, account statements, deeds, and recent tax returns, before calling every institution.
4. Be cautious with “helpful” advice from friends about quick transfers to avoid nursing home or tax problems. Late moves can backfire badly.
5. Schedule a conversation with a qualified estate planning attorney or CPA before the first tax filing season after the death.

The main “what not to do immediately after someone dies” theme is: do not make irreversible financial or legal moves based solely on fear or something you read in a headline.

Cost, timing, and getting real advice in California

One of the practical questions people ask is, “What is the average cost for estate planning in California?” Prices vary widely by region and complexity. For a basic will and revocable living trust package for a couple, I often see ranges from the low thousands to several thousand dollars with a competent attorney. Online forms are cheaper but rarely account for the messy realities of blended families, business interests, or Medi-Cal concerns.

The alternative is letting the state’s default rules and the probate court do the planning for you. That can easily cost far more in statutory probate fees, delay, and family conflict than careful planning ever would.

If you are staring at a \$100,000 inheritance and feeling both grateful and anxious, remember:

- The inheritance itself is usually not taxed in California.
- Your future tax bill depends more on what the asset is and what you do next.
- The same conversations that sort out your inheritance are an opportunity to update your own will, trust, and beneficiary designations so your children are not asking the same frantic questions a generation later.

Handled thoughtfully, a \$100,000 inheritance can be a foundation instead of a flashpoint, and understanding the rules is the first step toward using it well.