How to Divide an Inheritance Equally

Minimize the need to decide taxes and transaction costs for all beneficiaries

Nothing ignites family arguments like inheritance. If you plan to leave money to more than a few beneficiaries, for the sake of peace and your own emotional legacy, know how to divide the proceeds fairly.

First, you can divide your estate among however many heirs you want: three, seven, 11 or 13 and so on. Here are best practices for how to divide your wealth.

Beware of Taxes

Dividing an estate doesn't need to trigger taxes. Don't try to be the financial advisor of each beneficiary when you divvy the estate. Afterward, each beneficiary can decide financial and tax moves based on individual circumstances.

For example, let's say Jim, Susan and David become heirs of a taxable account of stocks, bonds and mutual funds. The account includes:

- 351.362 shares of XYZ mutual fund at $36.34 per share, worth about $12,768.49
- 2,000 shares of ABC stock at $100 a share, worth about $200,000 (this holding comprises two trade lots of 1,000 shares each and each trade lot has a different cost basis, or original price)
- $85,000 face value of CorpCorp bond at $97 par value, about $82,450 (traded in $5,000 face value units)
- $100,000 face value of MuniMuni bond at $102 par value, about $102,000 (also traded in $5,000 face value units)
- $5,236.45 in cash

The total account value is $402,454.94, making each heir's share $134,151.64 with two pennies left over.

To Divide the Account Evenly

The 351.362 shares of XYZ can be divided into three equal portions of 117.12 shares, leaving

0.002 shares left over. Jim and Susan receive 117.121 shares and David 117.12 shares, plus 0.001 times the closing valuation of XYZ on the day of transfer. This probably results in David receiving about four cents in lieu of missing out on 0.001 of a share.

The ABC stock comprises two trade lots: 1,000 shares purchased one year ago at $80 a share, and 1,000 shares purchased six months ago at $105 per share. Both positions divide equally into three 333-share portions, leaving just two shares to be divided, each with a face value of $100.

If all three heirs are in the 15% capital gains tax bracket, the value of each share is the closing valuation on the day of transfer adjusted for 15% capital gains taxes. In large estates with many assets to distribute, divide leftover shares as evenly as possible to minimize the difference between capital gains that heirs incur.

Note that taxable assets usually receive a stepped-up basis, meaning that the asset resets to its fair market value at the date of the holder's death. Often, however, half an estate's assets will go into a marital trust when the first spouse in an estate-holding couple dies.

When the second spouse dies, the entire estate is settled. But assets in the marital trust might have received a step-up in basis years earlier. In that case, potential differences in capital gains do apply when planning.

You can divide the $85,000 face value of CorpCorp equally only into 17 units each worth $5,000 in face value. In our example, each heir receives five $5,000 units, with two $5,000 units left over. Whoever doesn't receive a unit receives the equivalent in cash instead.

The $100,000 face value of MuniMuni divides equally only into 20 units each worth $5,000 in face value. Each heir therefore gets six $5,000 units with, again, two left over. Also again, whoever doesn't receive a unit receives the equivalent in cash instead.

(These examples assume no significant tax considerations on either bond. One recommendation is to vary who receives the cash.)

Common Questions

Why not just sell everything and split the money? Tax consequences to one or more heirs, illiquidity in one or more assets and the custodian fees to sell are all considerations to immediately selling and splitting.

What if two heirs want to sell an asset before dividing the money equally? Jim and Susan both wanting to sell the CorpCorp bonds doesn't need to affect David. Of the 17 units of CorpCorp, you can sell 12 units and agree to split the proceeds. Jim and Susan each receive 47.22% of the proceeds and David 5.56%, plus the five unsold units.

Dividing your estate this way minimizes your need to decide on behalf of all beneficiaries what to sell and how and what transaction costs and taxes to incur.