ACQUIRING A LARGE SUM OF MONEY

Q & A with Suzanne Wheeler, CFP®, AIF®, CeFT®

Due to a variety of life circumstances, people sometimes find themselves acquiring a large lump sum of money through severance pay, a divorce settlement, the death of a parent or spouse, an inheritance, or selling a house or small business.

Q: If someone wins a large divorce settlement, how should he or she manage investments, a budget and a single income?

A: This is a big life change that often comes with a lot of emotion; you shouldn't try to navigate it alone. I highly encourage quality financial planning as you transition to being single. An advisor can help you design a spending (or savings) plan and reevaluate that plan as needed based on your, and perhaps your children's (if applicable), current and future needs.

Your portfolio should be well-diversified for growth, income, or a combination of the two, based on your tolerance for risk and your individual needs and goals.

Q: What are the most important first steps people should take if they inherit money due to the death of a parent or spouse?

A: Most mistakes are made by moving too quickly. You won't regret taking time to determine the best use of the inheritance through a financial plan, perhaps with the help of a professional.

After you design your plan, you might use some of the money to build an emergency fund, plan for the future or eliminate debt. Some individuals purchase something special to remind them of their loved ones who have passed, or they create a special memory with their family. Be sure to talk to your advisor about tax implications of an inheritance.

Q: What are the tax implications individuals should consider when inheriting money?

A: When an inheritance is received, there are generally two types of tax that should be considered – estate taxes and income taxes. An estate tax may be assessed if the taxable value of the estate for an individual is in excess of $11.7 million (in 2021). This tax is paid by the estate and reduces how much the heirs receive.

Income taxes are typically not an immediate factor for those who inherit assets, as the assets revalue themselves to market value on the date the owner dies. However, inherited assets held within retirement accounts (401(k), traditional IRA, etc.) do not receive this revaluation, and any distributions from these accounts will typically be taxed to the recipient. You should work closely with your tax professional and wealth advisor to help maximize the total value you receive from these types of inherited assets.

Q: If someone is considering selling a house or small business, who should he/she consult about managing the process and the financial implications?

A: You should consult both your financial planner and your tax professional very early in the process. Planning can be crucial during this transition. You'll need to determine how much of the proceeds you'll receive and how much you'll owe in taxes, especially if you have reached a higher tax bracket. Having an estimate of what proceeds are yours to keep can eliminate emotions and an unexpected tax problem.

Suzanne Wheeler, director and senior wealth advisor, Mariner Wealth Advisors, has helped clients navigate the financial challenges of divorce, death, retirement and day-to-day living. Wheeler specializes in advising clients who have acquired "Sudden Money."

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