Mariner
WEALTH ADVISORS

Acquiring a Large Sum of Money

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 receives 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. In our opinion, it is important to work with a wealth advisor who can help you create a wealth plan that includes a cash flow strategy so you can monitor income and expenses. Meeting with an advisor periodically can help ensure you are on track to reach your goals.

Your wealth advisor will work alongside our in-house investment team to ensure your portfolio is diversified and aligns with your risk tolerance and time frame toward meeting 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. In our opinion, you won't regret taking time to determine the best use of the inheritance through a financial plan by meeting with your wealth advisor to minimize taxes (where applicable) on an inheritance and set goals for how you want to preserve or invest this newfound wealth.

If you don't already have one, create an emergency fund. If you already have one, add to it so that you have six months or more in savings should you need it. Some individuals purchase something special to remind them of their loved ones who have passed, or they create a special memory with their family.

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

A: When an inheritance is received, the following types of tax should be considered—estate and inheritance taxes and income taxes. An estate tax may be assessed if the taxable value of the estate for an individual or couple exceeds a specified annual limit. This tax is paid by the estate and reduces how much the heirs receive. An inheritance tax requires beneficiaries to pay taxes on assets they've inherited. There is no inheritance tax at the federal level, but there are a handful of states that impose the tax.

Income taxes may not be 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 wealth advisor 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 this information in advance can help to eliminate emotions and an unexpected tax problem.

For more information visit: marinerwealthadvisors.com

Additional fees may apply for tax services.