

First the good news. Many people have tax-deferred retirement accounts that have skyrocketed in value and would love to pass them on to family members. Now the not-so-good news: in most cases, the full value of retirement accounts must eventually be distributed and taxed as income, first to the original owners (who must begin taking annual distributions in their 70s) and then to inheritors, many of whom face accelerated timelines for taking distributions.

Thankfully, there are strategies to mitigate the tax impact of retirement account withdrawals and transfers. As with all effective tax planning, the first step is to know what is coming. Specifically, it's important to be aware of two key government requirements:

1. **You cannot postpone withdrawals indefinitely.** At age 73 (if born before 1960) or age 75 (if born after 1959), the IRS requires retirement account owners to take required minimum distributions (RMDs) from their tax-deferred retirement accounts each year. The amount of these RMDs is based on the owner's life expectancy and previous year-end value of the accounts.
2. **Most beneficiaries of inherited retirement accounts have 10 years to withdraw all the assets and pay associated taxes (except for the surviving spouse and young children of the deceased and a few other situations we will discuss later.)** If the RMDs on the accounts have already started, most beneficiaries must continue to take those annually.

It is important to understand that large distributions from retirement accounts to owners or inheritors can trigger higher tax bills and potentially lead to higher Medicare premiums.

Retirement Account Owners Have the Most Control

The original owners of retirement accounts have the most options when it comes to withdrawal and repositioning strategies, and usually the most time to implement smart tax planning.

Below are key considerations for the original account owners and inheritors to align retirement account assets with personal tax situations and life/family goals.

Strategize on size and timing of RMDs. If projected RMDs will cause potentially higher levels of taxation, consider reducing the size of RMDs by making withdrawals years in advance.

IRA owners can begin withdrawing funds without a 10% penalty at age 59 ½. Doing so affords the opportunity to slowly decrease the account balance over many years, resulting in lower required distributions at RMD age.

2026 Tax Brackets and Federal Income Tax Rates

Tax Rate	For Single Filers	For Married Filing Jointly
10%	\$0 to \$12,400	\$0 to \$24,800
12%	\$12,401 to \$50,400	\$24,801 to \$100,800
22%	\$50,401 to \$105,700	\$100,801 to \$211,400
24%	\$105,701 to \$201,775	\$211,401 to \$403,550
32%	\$201,776 to \$256,225	\$403,551 to \$512,450
35%	\$256,226 to \$640,600	\$512,451 to \$768,700
37%	\$640,601 or more	\$768,701 or more



Evaluate ability and willingness to pay income taxes on withdrawals prior to the start of RMDs. Whether you decide to pay the tax on withdrawals now or later may depend on your level of taxable income. If your taxable income is likely to be lower in future years, that is when to make higher withdrawals.

Explore a Roth IRA conversion. Owners of IRAs and other tax-deferred accounts can convert some or all of these accounts into Roth IRAs. Doing so means paying income taxes on IRA withdrawals now to create tax-free assets later (Roth IRA withdrawals are tax-free five years after the account was first funded). For Roth IRA owners who are older than 59 ½, there is no 10% early withdrawal penalty. So, this option can be especially attractive for “young” owners of IRAs who are in relatively low tax brackets. When a converted Roth has time to grow, it may result in more tax savings upon withdrawal, and potentially lower taxes.

Consider charitable giving. Starting at age 70 ½, individuals can give up to \$111,000 annually (as of 2026, adjusted for inflation) from an IRA or other tax-deferred retirement account directly to charity, which is then excluded from the donor's taxable income. If RMDs have started, the donated amount counts toward the required annual distribution. However, the gift must go directly to a nonprofit (not come to you first) and cannot go into a donor advised fund.

Understand how your IRA fits into your overall estate plan: It's important to understand that IRA beneficiary designations often supersede estate planning documents like wills. Work with your estate planning attorney and your financial advisor to ensure that your beneficiary designations are consistent with your intent. (i.e. If you intend to split your assets evenly among your three children, but your largest account is your IRA, which lists your favorite charity as the beneficiary, the IRA may pass fully to the charity, leaving only non-IRA assets to be distributed according to your will.)

What Inheritors Need to Know

Beneficiaries on tax-deferred retirement accounts also benefit by planning ahead. Most beneficiaries (other than surviving spouses or inheritors prior to 2020) must fully distribute funds they inherit in an IRA within 10 years of the owner's death, and those distributions are taxable as income.

If you have inherited or will inherit a retirement account, it's important to be aware of the following:

- **Your beneficiary status - eligible or non-eligible.** Adult children, any grandchildren and most other relatives of the original account owner are “non-eligible” and have 10 years to deplete the account.
Eligible beneficiaries, such as the surviving spouse and minor children of the deceased (only up to age 21), can “stretch” distributions over their life expectancies. In addition, so, too, can any beneficiaries who are critically ill, disabled, or who are no more than 10 years younger than the deceased.
- **If RMDs had started for the original account owner.** It makes a significant difference whether the original account owner had started to take RMDs. If RMDs had started, they must continue going to the beneficiaries designated as “non-eligible.” And by year 10, the account must be depleted.



Jane's Inherited IRA

Jane's mother, Eva, passed away in 2024 at the age of 90, having named Eva as the sole beneficiary of a large IRA.

What Jane can expect:

1. Starting in 2025, Jane will start taking annual distributions (RMDs) from the accounts.
2. In 2035, Jane must withdraw whatever assets are left in the account (being that RMDs not likely to deplete the account).

Key Considerations for Jane

Age: Jane is 66 years old and is easing into full retirement.

Taxable income and bracket: Jane's highest marginal tax bracket is 22% but will rise substantially in 2033 when she turns 73 and starts taking RMDs from her own retirement accounts.

That same year, a large lump sum distribution to fully distribute her inherited IRA balance will push her into the highest tax bracket.

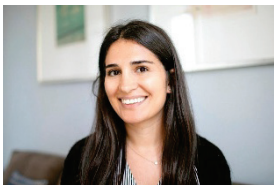
Strategy: Evaluate whether Jane should take higher distributions (beyond the annual RMD) from her inherited IRA while she is in the 22% tax bracket so she doesn't get hit in 2033 with a much higher tax bill.

The rules on tax-deferred retirement accounts can be complex, which is why advance planning is critical to avoid surprise tax burdens and preserve wealth across generations.

At LNW, we are here to work with you and your family to devise a plan for tax-efficient retirement account distributions and transfers.

 **Contact us to learn more.** (800) 475-9159 | [LNWadvisors.com](https://lnwadvisors.com)

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Sami Adlesh, CFP®, As a wealth and tax advisor, Sami works alongside our client service teams to deliver top-notch investment and wealth management services that help our clients reach their goals. While her career has moved away the sole focus on taxes that she started with in her earlier days at PriceWaterhouseCoopers, she serves as one of our in-house tax experts, using her education and experience in taxation to understand the nuances of a client's complex tax situation.



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