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# Inherited IRA Playbook: Minimize Taxes on Your Inheritance

Inherited IRAs are easy to mishandle because the account looks familiar while the rules are not. Your options depend on whether you are a spouse, a non-spouse beneficiary, an eligible designated beneficiary, a trust, or an estate; whether the account is traditional or Roth; and whether the original owner died before or after their required beginning date. This playbook turns those rule sets into a working system: identify the correct beneficiary category, move the account by direct transfer only, calculate annual RMDs when the rules require them, spread taxable withdrawals across the SECURE Act's 10-year window when that framework applies, and update your own beneficiary designations so the next handoff is cleaner than the one you received.

## 1. Foundation

The first job with any inherited IRA is classification, not withdrawal timing. You need the exact registration of the account, the date of death, the beneficiary form on file, and the original owner's birth date or required beginning date status. Those facts determine whether you are a surviving spouse, an eligible designated beneficiary, a regular designated beneficiary subject to the 10-year rule, or a non-designated beneficiary such as an estate or some trusts. A correct classification prevents the two most common inherited-IRA failures: moving the money the wrong way and planning distributions under the wrong deadline. Before you decide anything about taxes, make sure the account is titled correctly and that the custodian agrees in writing which rule set applies.

**Spouse and non-spouse beneficiaries do not have the same menu.** A surviving spouse often has the broadest options: keep the account as an inherited IRA, roll it into their own IRA, or in some cases treat it as their own. The best choice depends on age, cash-flow needs, and RMD timing. A spouse under age 59½ who may need money soon sometimes keeps the inherited IRA temporarily because beneficiary distributions can avoid the normal early-withdrawal penalty rules. A non-spouse beneficiary usually cannot

roll the account into a personal IRA and instead needs a direct trustee-to-trustee transfer into an inherited IRA. Eligible designated beneficiaries, including certain disabled or chronically ill beneficiaries, beneficiaries not more than 10 years younger than the decedent, and the decedent's minor child until the age-of-majority transition, may qualify for life-expectancy treatment rather than the standard 10-year drain-down. Those exceptions are powerful and worth verifying rather than guessing.

**The SECURE Act changed the default timeline.** For many non-spouse designated beneficiaries, inherited IRA assets must be fully distributed by December 31 of the tenth year after the original owner's death. That sounds simple until RMD rules are layered on top. If the original owner died after their required beginning date, current IRS guidance can require annual RMDs in years one through nine for many beneficiaries who are still subject to the year-10 full payout. Annual RMDs are generally based on the prior December 31 account balance divided by the beneficiary's life-expectancy factor from the IRS Single Life Table, reduced by one each year after the first calculation. If the owner died before the required beginning date, annual RMDs may not apply during years one through nine for that beneficiary category, but the account still has to be emptied by year 10. Missing the distinction can turn a smooth withdrawal plan into a last-minute scramble.

**Traditional and Roth inherited IRAs behave differently on taxes, but both require calendar discipline.** Traditional inherited IRA distributions are usually taxable as ordinary income, so the main planning opportunity is deciding how to spread income over the available years. Roth inherited IRA distributions are often tax-free if the Roth satisfied the five-year aging rule, but many beneficiaries still must empty the account under the applicable beneficiary timetable. That means Roth money may be the best asset to leave growing until later years, while traditional money may deserve deliberate annual withdrawals that fill lower tax brackets, avoid Medicare IRMAA cliffs, and coordinate with your work income, retirement date, Social Security start date, and state taxes. A CPA becomes valuable whenever the inherited account is large enough to push brackets around, when multiple beneficiaries split one account, or when you are mixing inherited IRA withdrawals with Roth conversions, business income, or the sale of appreciated assets. An estate attorney or trust attorney matters when a trust is named, when there is a disclaimer question, or when beneficiary language is unclear.

## 2. Step-by-Step System

**1****Confirm the account title, beneficiary type, and transfer method**

Ask the custodian for the beneficiary paperwork, current account registration, and a written explanation of the options available to your beneficiary class. If you are a spouse, compare the advantages of a beneficiary IRA versus a rollover to your own IRA before money moves. If you are not a spouse, the default safe path is usually a direct trustee-to-trustee transfer into a properly titled inherited IRA, not a distribution check made payable to you personally. The title should show both the decedent and the beneficiary, for example, "Robert Lee IRA (deceased 3/15/2026) FBO Dana Lee beneficiary." If there are multiple beneficiaries, ask whether separate inherited IRAs need to be established by December 31 of the year after death so each beneficiary can follow their own timing rules. Document whether the account is traditional or Roth, whether the decedent had already started RMDs, and whether the five-year Roth aging period has been met. This is the administrative step most people want to skip, but it determines whether the rest of your plan is even valid.

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## **Determine the rule set and the final payout deadline**

Once the account is correctly titled, classify the beneficiary under the tax rules and write the deadline in plain English. A surviving spouse may be able to delay certain decisions. Eligible designated beneficiaries may use life expectancy for a period of time, with special transition rules for a minor child of the decedent. Many other non-spouse beneficiaries fall under the 10-year rule, meaning the account must be empty by December 31 of the tenth year after death. Estates, charities, and some trusts can trigger faster payout schedules or more restrictive treatment, which is why beneficiary form review matters so much. Put four facts on one sheet: date of death, beneficiary class, decedent's required beginning date status, and whether annual RMDs apply before year 10. Do not rely on a vague note like "empty in ten years." Write the actual year, the first RMD year if any, and the date you want your CPA to review the schedule. Clear deadlines make the difference between proactive tax planning and an emergency distribution when year 10 arrives.

## 3

**Calculate annual RMDs when the rules require them**

If annual RMDs apply, calculate them early in the year instead of waiting until December. The basic structure is prior December 31 account value divided by the correct life-expectancy factor. For many beneficiaries using the Single Life Table, you find the starting factor in year one after death and then subtract one in each later year. Example: if the inherited traditional IRA is worth \$420,000 on December 31 and the applicable factor is 29.6, the year's RMD is about \$14,189. If next year's ending balance is \$430,000 and the new factor is 28.6, the next RMD is about \$15,035. Under the post-SECURE rules, some beneficiaries subject to the 10-year framework still need these annual minimum withdrawals in years one through nine if the decedent died after their required beginning date, and then must also finish emptying the account by year 10. That last rule trips people because satisfying the annual minimum is not enough by itself. Keep a simple spreadsheet with the account's year-end balance, factor, required amount, actual withdrawal date, withholding election, and remaining year-10 target.

## 4

**Design a 10-year tax strategy instead of drifting into a lump sum**

For traditional inherited IRAs, the real planning opportunity is usually bracket management. Start by projecting your taxable income for each year in the available window: wages, spouse income, bonuses, business income, Social Security, pension, capital gains, and any Roth conversion plans. Then estimate how much inherited IRA income you can add without pushing yourself into an unnecessarily high marginal bracket or into side effects such as Medicare IRMAA surcharges. A common approach is to fill up a target bracket intentionally each year. If your ordinary taxable income leaves \$35,000 of room in the 22% bracket, you might plan an inherited IRA withdrawal near that amount rather than taking nothing for nine years and a crushing lump sum in year 10. Gap years between retirement and Required Minimum Distribution age can be especially valuable for larger withdrawals. For Roth inherited IRAs, because distributions are often tax-free, many beneficiaries let the Roth stay invested longer and use traditional inherited IRA dollars first. The right answer still depends on market risk, liquidity needs, and the rest of your estate, but a written ten-year map is almost always better than a vague promise to "deal with it later."

## 5

**Avoid prohibited moves and paperwork mistakes**

The biggest inherited-IRA error for a non-spouse beneficiary is trying to roll the account into a personal IRA or taking receipt of the money and planning to fix it later. In most cases the safe move is direct transfer only. Another common mistake is assuming a distribution check with 20% withholding is harmless; once money leaves under the wrong coding, the tax and administrative consequences can be hard to unwind. Do not commingle inherited IRA assets with your own IRA assets. Do not assume a Roth inherited IRA can be ignored forever simply because distributions are often tax-free. Do not forget that separate-account deadlines for multiple beneficiaries can affect flexibility. And do not let the custodian's casual phone explanation replace a written confirmation of the rule set. If the account is held in a trust, if the beneficiary is disabled or chronically ill, or if there is any ambiguity about whether you are using life expectancy or the 10-year rule, escalate to a CPA or estate attorney before the first withdrawal rather than after the year-end statement arrives.

## 6

**Review beneficiary designations and update your own plan**

Inherited IRA planning should end with a broader beneficiary review, not with the last withdrawal spreadsheet. After the inherited account is set up, review your own IRA, 401(k), 403(b), HSA, brokerage transfer-on-death instructions, life insurance, and bank payable-on-death designations. Major life events, remarriage, new children, blended families, and trusts often leave old beneficiary forms pointing to the wrong person. If you are a surviving spouse, check whether your updated retirement balances change how your estate documents, trust funding, or charitable plans should work. If you are a non-spouse beneficiary who received a large account, think through what happens if you die during the 10-year window; successor beneficiaries may inherit a compressed timeline. Also document where your heirs can find the inherited IRA schedule, custodian contact information, and tax basis records from any distributions already taken. The best inherited-IRA plan does not just minimize current taxes; it leaves clear instructions for the next handoff.

**3. Key Worksheets & Checklists**

Use these pages as a live operating file. Enter the exact dates and custodian names from your account paperwork, then share the finished version with your CPA before the first tax-sensitive distribution. A written rule set is far easier to manage than a memory-based plan assembled from phone calls and partial statements.

## 1. Inherited IRA Rule-Set Worksheet

<b>Decedent and date of death</b>	Write the original owner's full name and date of death; this determines the countdown year and the applicable tables.
<b>Account type</b>	Record whether the account is a traditional IRA, Roth IRA, inherited 401(k), or another qualified retirement account being transferred.
<b>Beneficiary classification</b>	State whether you are a spouse, eligible designated beneficiary, standard designated beneficiary under the 10-year rule, trust, or estate.
<b>Required beginning date status</b>	Note whether the decedent died before or after starting required minimum distributions.
<b>Annual RMD rule</b>	Write yes or no, the table used, and the first tax year in which an annual RMD must be calculated.
<b>Year-10 deadline</b>	State the exact calendar year and December 31 deadline by which the account must be fully emptied if the 10-year framework applies.
<b>Roth five-year test</b>	For inherited Roth IRAs, note whether the original Roth has satisfied the five-year aging rule.
<b>Successor beneficiary plan</b>	List who should inherit the remaining account if you die before the inherited IRA is fully distributed.
<b>CPA review date</b>	Schedule the date each year when bracket planning and RMD calculations will be checked.

## 2. Execution Checklist

- Obtain written confirmation from the custodian on your beneficiary class and available transfer options before initiating any movement of funds.
- If you are a non-spouse beneficiary, insist on a direct transfer to a properly titled inherited IRA rather than a personal check.
- Document whether the decedent had reached the required beginning date and whether annual RMDs apply in years one through nine.
- For multiple beneficiaries, ask about separate-account deadlines and complete the split on time if it improves flexibility.
- Build a year-by-year income projection so inherited IRA withdrawals can be coordinated with wages, business income, retirement dates, and Medicare thresholds.
- For traditional inherited IRAs, compare equal annual withdrawals, front-loaded withdrawals, and back-loaded withdrawals instead of defaulting to a lump sum.
- For Roth inherited IRAs, verify the five-year aging status and decide whether preserving tax-free growth for later years fits your risk tolerance.
- Record every RMD calculation, actual withdrawal, and withholding election in one spreadsheet that your CPA can review.
- Do not commingle inherited assets with your own IRA assets and do not rely on a 60-day rollover concept for non-spouse inherited IRAs.
- After the inherited account is settled, review and update your own beneficiary designations across every major account.

### 3. 10-Year Distribution Planner

Year	Planned withdrawal	Tax context	Notes
1	Enter the annual RMD if required, plus any extra withdrawal you want to take deliberately.	Current wages, bonus income, or transition-year deductions.	Confirm custodian coding and withholding choice.
2	Adjust for market value, cash needs, and bracket room.	Recheck whether additional inherited IRA income still fits your target bracket.	Update successor beneficiary records.
3	Consider larger withdrawals in a lower-income year.	Job change, sabbatical, or business-loss year may create room.	Document why this year differs from the baseline.
4	Keep the account on pace with the year-10 deadline.	Project Medicare and state-tax effects if retirement is approaching.	Do not let a strong market create false comfort.
5	Midpoint check: compare cumulative withdrawals against the planned pace.	If behind schedule, spread catch-up withdrawals over the remaining years.	Coordinate with Roth conversions if relevant.
6	Review investment	Traditional accounts may	Keep distributions

Year	Planned withdrawal	Tax context	Notes
	allocation inside the inherited IRA.	justify earlier withdrawals if brackets are temporarily low.	separate from personal IRA activity.
7	Stress-test the plan for a market downturn or income spike.	Update bracket targets with your CPA.	Revise withholding if underpayment risk rises.
8	Increase pace if the account remains too large for the final two years.	Avoid creating a year-10 tax cliff.	Check that annual RMDs were satisfied first if applicable.
9	Project the remaining balance at year-end and set the final-year distribution window.	Confirm whether one or more staged withdrawals would reduce risk.	Make sure beneficiary records are still correct.
10	Empty the remaining balance by December 31 if the 10-year rule applies.	Coordinate final tax payments, withholding, and filing expectations.	Save the final statement and distribution record permanently.

## 4. Common Mistakes

### **Letting a non-spouse inherited IRA become a personal IRA problem**

Non-spouse beneficiaries usually cannot solve the inheritance by rolling the account into their own IRA. Once the money is distributed the wrong way, the mistake may be irreversible. Keep the account titled as inherited, use direct transfer only, and confirm the coding before the first distribution is processed.

### **Assuming the 10-year rule means no annual RMDs**

For many beneficiaries whose decedent died after the required beginning date, years one through nine can still carry annual RMD obligations even though the full account must also be emptied by year 10. The absence of a planned spreadsheet is often what causes this error, not the lack of intelligence.

### **Treating an inherited Roth IRA as a set-it-and-forget-it account**

Tax-free does not mean rule-free. You still need to confirm the five-year aging requirement, the beneficiary timetable, and the year-10 deadline where applicable. Beneficiaries who never review the Roth often discover too late that they should have preserved records, updated successor beneficiaries, or paced withdrawals differently.

### **Forgetting the beneficiary review that should follow the inheritance**

People spend weeks sorting out the decedent's paperwork and then leave their own IRA, 401(k), life insurance, and transfer-on-death forms untouched. That is how old spouses, ex-spouses, or unintended heirs stay on file for years. Finish the inherited IRA project by updating your own designations while the lesson is still fresh.

## **5. Next Steps**

Before you leave this guide, write down five items: your beneficiary classification, whether annual RMDs apply, the year-10 deadline if relevant, the amount you plan to withdraw this year, and the date your CPA will review next year's bracket plan. That one-page summary will prevent more mistakes than hours of additional reading.

Then turn outward and clean up your own plan. Update beneficiary forms, store the inherited IRA paperwork with your household records, and add annual reminders for RMD calculations or distribution pacing. If the inherited account changes your broader cash-flow plan, revisit [the Budget Calculator](#) and keep [the tools hub](#) available for the next round of tax and withdrawal decisions.

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