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Is Congress trying to trick us into paying higher taxes?

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Most people have been conditioned to take as little as required out of their IRA each year and then pass the account to their children, who can continue the tax deferral by continuing to take only the required minimum distributions out each year.

The SECURE (Setting Every Community Up for Retirement Enhancement) ACT of 2017 changed the game in a major way. One minor change is that starting dates for RMDs were pushed back a little bit to age 72. That sounds favorable until you realize the tax brackets are scheduled to increase starting in 2026.

This means everyone with significant RMDs will be paying higher taxes on those distributions, if they are deferred until after 2025. However, the major change was Congress eliminated one of the biggest tax benefits of inherited IRAs. Your children no longer can continue to defer the taxes from IRAs over their lifetime. Your non-spousal heirs must cash in the accounts within 10 years of your death. This means that your children are likely to pay much higher taxes on your IRA if you fail to plan correctly.

So you might be wondering: "Won't I owe taxes if I convert to a Roth IRA?"

The answer: Absolutely.

The notion of voluntarily paying taxes sooner rather than later seems antithetical to the way most of us are wired and the IRS may be relying on that notion to maximize tax revenue. Most people (and most accountants) would simply prefer to kick the can down the road and minimize THIS YEAR's taxes. That is the exact thought process that the IRS may be hoping for.

Under the new IRA rules, combined with the 2026 increasing tax brackets, the "pay as late as possible" approach will result in the most tax revenue for the IRS.

The good news is that there are strategies that will allow taxpayers to not only disinherit the IRA, but also to mitigate the current tax bill for doing so. You should consult with an adviser who is experienced in these strategies as soon as possible.