



Tax on IRA distributions

two assumptions: \$100K / \$50K ordinary income
an additional \$200K SECURE distribution

	MFJ	Single
Projected income for 2025	\$100,000	\$50,000
Standard deduction	\$30,000	\$15,000
Taxable income	\$70,000	\$35,000
22% threshold for 2025	\$96,950	\$48,475
24% threshold for 2025	\$206,701	\$103,351
32% threshold for 2025	\$394,601	\$197,301

You're working, making decent money. You're paying Federal taxes at a modest 12% rate. For every additional \$1,000 you earn, you're paying \$120 in Federal tax. At present, you have not yet reached the 22% tax bracket.

But what happens if you receive an inherited IRA and you now have



Tax on IRA distributions

two assumptions: \$100K / \$50K ordinary income
an additional \$200K SECURE distribution

	MFJ	Single
Projected income for 2025	\$100,000	\$50,000
Standard deduction	\$30,000	\$15,000
Taxable income	\$70,000	\$35,000
22% threshold for 2025	\$96,950	\$48,475
24% threshold for 2025	\$206,701	\$103,351
32% threshold for 2025	\$394,601	\$197,301
IRA distribution	\$200,000	\$200,000
Amount taxed at 12%	\$26,950	\$13,475
Amount taxed at 22%	\$109,751	\$54,876
Amount taxed at 24%	\$63,299	\$131,649
Amount taxed at 32%		
Tax paid at 12%	\$3,234	\$1,617
Tax paid at 22%	\$24,145	\$12,073
Tax paid at 24%	\$15,192	\$31,596
Tax paid at 32%	\$0	\$0
Total tax paid on distribution	\$42,571	\$45,285
Tax burden on the distribution	21.3%	22.6%
Net distribution after tax paid	\$157,429	\$154,715

An additional \$200,000 is a large influx and it significantly affects your tax calculation for the year it is received. You now have income that has pushed you into the 22% bracket and beyond, into the 24% bracket.

That is not a disaster. This is, after all, found money.

For a married recipient, this new money results in a total additional tax of about \$42,500, which is 21% of the amount received. After that tax is paid, though, about \$157,500 remains, and this is now outside the IRA and will never be subject to required distributions or further income tax based on an IRA withdrawal. This money is now free and clear.

This calculation will repeat itself, with varying amounts each year, for a few years in a row. Be prepared to handle the money and invest it