

When a Spouse Dies, the Surviving Partner May Face a Surprise Tax Penalty

Avoiding a significant tax bill may require some deft workarounds and trade-offs.



When Bill suddenly died, his wife, Beth, immediately had to begin navigating life as a widow—grieving the loss of her partner while trying to make sense of the retirement future they had planned together. What she didn't anticipate was that a significant income-tax increase would quietly upend those plans the following year.

Beth's taxable income fell by roughly 20%. Yet her federal tax bill rose meaningfully—not because she was earning more, but because she was now required to file as a single taxpayer.

Bill and Beth's story may be hypothetical, but it accurately describes the dynamic behind what's sometimes called a "tax explosion"¹ for surviving spouses. Also known as the widow's penalty and the survivor's penalty, the outcome of this phenomenon is the same: Surviving spouses may find themselves paying more in taxes even as household income declines.

Why This Happens: From "Married" to "Single" Filing

The root cause of this tax shock is a change in filing status. In the year a spouse dies, the surviving partner can generally still file a joint return. After that, most survivors must file as single taxpayers, assuming they don't remarry before year end.² The changed filing status immediately cuts the available standard deduction in half because the tax code implicitly assumes that a household's income will be reduced by half after a spouse's death.

For many retirees, that assumption simply doesn't hold. A surviving spouse may inherit their spouse's larger Social Security benefit, continue receiving pension income, and remain responsible for taking required minimum distributions (RMDs) from retirement accounts accumulated over decades. In some cases, RMDs actually increase when accounts are consolidated. The result is a compression of income into narrower tax brackets—often pushing a survivor into a higher tax bracket.

In an ideal world, proactive couples can use their time together to plan ahead for the possible tax consequences of a spouse's death. But, in reality, the year immediately following a spouse's death may provide the best window of opportunity to execute a pre-emptive Roth IRA conversion while the surviving spouse is still able to file at a more advantageous tax-filing status (see **FIGURE 2** below).

Key Points

- A surviving spouse's shift from joint to single filing can compress tax brackets, reduce deductions, and raise taxes—even when income declines.
- Roth conversions, executed thoughtfully before or shortly after a spouse's death, can help manage future taxes and preserve long-term income flexibility.
- Additional tools, such as stepped-up asset basis, home-sale exclusions, and IRA disclaimers, may help surviving spouses soften the lasting tax impact.

Three Scenarios

In the first of three hypothetical examples shown below, Bill and Beth, a retired couple in their early 70s, represent a hypothetical example of a worst-case tax explosion. Before Bill's passing, the couple's earnings placed them comfortably within the Internal Revenue Service's 12% marginal tax bracket, resulting in a modest tax bill of \$9,543. After Bill's death, Beth was able to file as a married couple for one tax year, temporarily keeping her in the 12% bracket. But, a year later, Beth's tax bill as a single filer jumped to \$11,689 (FIGURE 1).

Scenario 1: Worst-Case Scenario—Income Falls, Taxes Rise

In the first year following Bill's death, Beth was still able to file jointly and preserve the maximum standard deduction for herself. But by the second year, Beth lost her own Social Security check (replaced by Bill's larger benefit); rejoined the workforce to replace half of what Bill earned on a part-time basis; and doubled her husband's RMDs to make up for income loss.

The result: Beth's gross income fell, her standard deduction was halved, and more of her income was taxed at a higher marginal rate—at the 22% bracket instead of the 12% bracket. This raised her tax bill by 22%—even though her lifestyle hadn't improved and her income hadn't grown.

FIGURE 1

Worst-Case Scenario: Reduced Adjusted Gross Income, Higher Taxes

Beth's Adjusted Gross Income Declined by 20%—Yet Her Tax Bill Jumped by 22%

Annual Income Sources	Married/Joint Filing Prior to Spouse's Death	Single Filing 2 Years After Spouse's Death
Bill's Social Security Benefit	\$40,000	\$40,000
Beth's Social Security Benefit	\$16,000	\$0
Pension	\$24,000	\$12,000
Bill's Part-Time Earnings	\$20,000	\$0
Beth's Part-Time Earnings	\$0	\$10,000
401(k) RMD	\$15,000	\$30,000
Adjusted Gross Income	\$115,000	\$92,000
Standard Deduction	\$31,500	\$15,750
Taxable Income	\$83,500	\$76,250
	12% Bracket	22% Bracket
Tax Paid	\$9,524	\$11,487

Hypothetical tax calculations based on 2026 marginal income-tax brackets. For illustrative purposes only. Sources: IRS.gov and Hartford Funds, 4/26.

Scenario 2: A Savvy Tax-Planning Strategy—Using the Final Joint Return

Rather than allowing all future RMDs to be perpetually taxed at a higher marginal rate, Beth and her financial professional decided to move \$75,000 from an IRA into a Roth account during her final joint-filing year (FIGURE 2).

Yes, the conversion created a one-time tax bill, with Beth temporarily landing in the 22% bracket. But by reducing future IRA balances, Beth lowered future RMDs, reduced taxable income in subsequent years, and returned to the 12% bracket as a single taxpayer. She also gained a source of tax-free income to potentially help manage both income taxes and Medicare premium thresholds.

Withdrawals from a Roth are tax-free as long as the surviving spouse is 59½ or older and has owned the account for at least five years, and the accounts aren't subject to RMDs.³

FIGURE 2

A Savvy Move: Executing a Roth Conversion in the Final Joint Return

Beth Trades a One-Time Tax Hit for a Future Marginal Tax Reduction

Annual Income Sources	Joint Filer: Within 1 Year of Spouse's Death	Single Filer: After 1st Year of Spouse's Death
Bill's Social Security Benefit	\$40,000	\$40,000
Beth's Social Security Benefit	\$0	\$0
Pension (50%)	\$12,000	\$12,000
Beth's Part-Time Earnings	\$10,000	\$10,000
Taxable Roth Rollover	\$75,000	\$0
AGI	\$137,000	\$62,000
Standard Deduction	\$31,500	\$15,750
Taxable Income	\$105,500	\$46,250
	22% Bracket	12% Bracket
Tax Paid	\$12,634	\$5,302

Hypothetical tax calculations based on 2026 marginal income-tax brackets. For illustrative purposes only. Sources: IRS.gov and Hartford Funds, 4/26.

Scenario 3: Proactive Planning—The Advantage of Time

Over three years, Bill and Beth gradually converted IRA assets to a Roth while still filing jointly. By proactively planning ahead, they reduced future RMDs and softened the tax transition they knew one of them would eventually face.

FIGURE 3

Proactive Early Strategy: Roth Conversions While Both Spouses Are Still Alive

Beth and Bill Get Ahead of the Tax Explosion with Gradual Roth Rollovers

Annual Income Sources	Joint Filing: Proactive Early Rollover - Year 1	Joint Filing: Proactive Early Rollover - Year 2	Joint Filing: Proactive Early Rollover - Year 3
Bill's Social Security Benefit	\$40,000	\$40,000	\$40,000
Beth's Social Security Benefit	\$16,000	\$16,000	\$16,000
Pension	\$24,000	\$24,000	\$24,000
Bill's Part-Time Earnings	\$20,000	\$20,000	\$20,000
Taxable Roth Rollover	\$50,000	\$25,000	\$15,000
AGI	\$150,000	\$125,000	\$115,000
Standard Deduction	\$31,500	\$31,500	\$31,500
Taxable Income	\$118,500	\$93,500	\$83,500
	22% Bracket	12% Bracket	12% Bracket
Tax Paid	\$15,494	\$10,724	\$9,524

Hypothetical tax calculations based on 2026 marginal income-tax brackets. For illustrative purposes only. Sources: IRS.gov and Hartford Funds, 4/26.

Additional Mitigation Strategies for Surviving Spouses

The Asset "Step-Up"

Surviving spouses receive a step-up in cost basis on taxable assets held at the deceased spouse's death. This can significantly reduce capital-gains exposure if appreciated assets are sold.

For example, if a spouse originally pays \$25 for mutual-fund shares and they were worth \$200 on the day he or she died, the tax basis would be \$200. If the sale of those shares is delayed, the owner only pays taxes (or can claim a loss) on the difference between \$200 and the value on the date of sale.

Assets that are potentially eligible include marketable securities, business interests, tangible personal property (antiques, coins, jewelry), assets in revocable trusts, and real estate. Assets that don't qualify include: retirement accounts and pensions.

The Home Seller's Exclusion

Speaking of real estate, widowed spouses may qualify for up to a \$500,000 capital-gains exclusion on the sale of a primary residence, provided the surviving spouse sells the house within two years after the date of the first spouse's death (without having remarried). Admittedly, the idea of selling one's home can be fraught with financial, logistical, and emotional challenges, but for those considering downsizing or relocating, this exclusion can create meaningful tax savings.

The home seller's exclusion and the asset step-up might work hand-in-hand since homes are considered an asset eligible for a cost-basis step up—but the amount of that step-up depends on the state in which you reside.

Let It Pass to the Kids

In certain circumstances, a surviving spouse may choose to disclaim all or part of an inherited IRA. Disclaimed assets pass to contingent beneficiaries—often adult children—who may be in lower tax brackets or able to stretch distributions over time. This strategy requires careful coordination and timely execution but can reduce the surviving spouse's future taxable income.

Conclusion

No strategy can soften the emotional loss of a spouse. But thoughtful tax planning—whether undertaken years in advance or carefully executed after a loss—can help ensure that financial stability isn't an additional worry. For families and financial professionals alike, recognizing widowhood as a tax transition as well as a life transition can make a meaningful difference.

Talk to your financial or tax professional to develop a set of realistic options for mitigating the widow's penalty.

¹ MarketWatch.com, "When a Spouse Dies, There Can Be a 'Tax Explosion' for the One Left Behind," 1/18/2025.

² Surviving spouses with dependent children are eligible for the benefits of joint filing for up to two years after the death of the first spouse, but this is a circumstance that rarely applies to most retired couples.

³ Kiplinger, "How to Avoid the 'Widow's Penalty' After the Loss of a Spouse," 8/11/24.

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