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Ten Things You Should Know About IRA to IRA Rollovers

Rollovers can come in many forms depending on the type of retirement account the assets are coming out of and the type of retirement account they are going into. That fact alone makes them confusing (see the Rollover Chart below). Now adding to that is more confusion because a long standing rule for IRA to IRA rollovers has changed.[i] Beginning in 2015, you can only do one 60-day IRA to IRA rollover in a 12-month period, regardless of how many IRAs you own. If you have more than one IRA at a single financial institution, or if you have multiple IRAs at multiple financial institutions, only one rollover can occur every year. "IRAs", for purposes of this rule, include traditional IRAs, Roth IRAs, SEP IRAs and SIMPLE IRAs.

Unfortunately, violating this rule has consequences that can lead to the income taxes, tax penalties and possibly disqualification of the IRA, even if that violation was unintentional. Here are some things you should know before moving your assets between IRA accounts.

1. **A trustee-to-trustee transfer is not the same as a rollover.**
   An IRA rollover occurs when you receive a distribution from your IRA and you deposit (or roll over) that distribution to another IRA (or back into the same IRA). When a rollover is handled properly, the distribution is not taxable. However, because you were the middleman in the transaction and personally had use of the assets in the interim, all rollovers are considered reportable events to the IRS. Even though the end result may be that you do not owe taxes on the distribution, you have to account for the distribution on your income tax return.

   A trustee-to-trustee transfer, on the other hand, is a direct transfer of assets from one IRA to another IRA. With a trustee-to-trustee transfer, you do not take receipt of the IRA assets. Instead, they are moved directly between financial institution accounts. Because you simply authorize the movement of the IRA assets but do not touch them yourself, transfers are not taxable; they are not reported to the IRS and can be done an unlimited number of times. Even though the direct transfer process may in some cases take a little longer than an IRA rollover, it is a better way to accomplish the same result.

2. **The 60-day rule applies.**

   An IRA distribution must be rolled over into an IRA or eligible retirement plan within 60 calendar days if you want to avoid paying income taxes on the distribution. If the rollover is not completed within 60 days after receiving the IRA distribution, the amount distributed will be taxed as ordinary income and may be subject to a 10% early withdrawal penalty if you are not age 59 ½ or older. Exceptions are available to extend the 60-day rollover window, but only in limited circumstances where the rollover was not completed due to a financial institution error or due to casualty, disaster, or other circumstances beyond your reasonable control.

3. **Not all rollovers fall under the one-rollover-per-year rule.**

   The limitation for doing one IRA rollover per year is no longer a one-rollover-per-IRA rule. Beginning in 2015, it is a one-rollover-per-person rule and, as mentioned above, it applies in aggregate across all IRAs that you own including traditional IRAs, Roth IRAs, SEP IRAs and SIMPLE IRAs. However, not all rollovers into IRAs are subject to the once a year rule. The following are *NOT* limited to one rollover per year:

   - IRA rollovers to or from an employer-sponsored retirement plan such as a 401(k) – including direct or indirect rollovers
   - Roth conversions from a traditional IRA to a Roth IRA
   - First-time home buyer rollovers that are made when a home purchase is delayed or cancelled
   - Qualified reservist distributions that are repaid timely
   - Trustee-to-trustee transfers between financial institutions

4. **The year is not a calendar year.**

   When a distribution is made from your IRA and that distribution is rolled over within the 60-day rollover period, you are not able to roll over a subsequent distribution from any of your IRAs in the next 12-months (365 days).

5. **The year begins with the date of the distribution, not the date of the rollover contribution.**

   Although the date of the rollover contribution is important when determining if a timely rollover has been made within 60 days, when applying the once a year rule, the 12-month period begins with the distribution date, not the date of the rollover. For example, if you take a distribution from your IRA on May 15, 2015, and complete a timely rollover on July 1, 2015, you cannot roll over any additional distributions taken from any of your IRAs if the distribution is before May 15, 2016.

6. **The same assets distributed must be rolled over.**

   In order to properly complete an IRA rollover, the same assets distributed to you from the IRA must be rolled over. For example, you cannot receive IRA assets, sell those assets, and then roll over the cash proceeds from the sale. Your rollover is only tax free if what you contribute to the receiving IRA is the same property that was distributed to you from your IRA.

7. **You cannot roll over your required minimum distributions ("RMDs").**

   If you are or will be age 70 ½ or older in the year you take an IRA distribution, because you are subject to RMDs any amounts required to be distributed are not eligible for rollover. Each dollar distributed will first go to satisfy that year's required minimum distribution. However, once you have satisfied your RMD for a given year, amounts in excess of the RMD can be rolled over into an IRA if they meet both the 60-day rule and the once-per-year rule. For example, if your RMD is $10,000 this year and you withdraw $6,000, you cannot roll over any portion of the distribution because it will be considered part of your RMD. If you take a subsequent distribution of $6,000 in the same year, $4,000 would not be eligible for rollover because it represents the balance necessary to satisfy the RMD, but the remaining $2,000 could be rolled over into an IRA if the 60-day rule and once-per-year rule are satisfied.

8. **You cannot borrow money from your IRA or use your IRA as collateral for a loan.**

   Generally, a prohibited transaction is any improper use of your IRA account by you, your beneficiary or any disqualified person. Among the list of prohibited transactions for IRAs is borrowing money from it or using it as security for a loan. If you engage in a prohibited transaction in connection with your IRA any time during the year, your account stops being an IRA as of the first day of that year. Disqualification of the IRA treats the IRA as if it were distributed in full, subject to taxes and possible early withdrawal penalties.

9. **Inherited IRAs may create additional concerns for the once a year rollover rule.**

   If you inherit an IRA from your spouse, you generally can roll it over or treat the IRA as your own. If your deceased spouse had more than one IRA that you would like to consolidate into your own IRA, make sure to use the trustee-to-trustee transfer option wherever available. Absent additional clarification from the IRS, there could be risks associated with inadvertently making more than one 60-day rollover within 365 days from more than one IRA when consolidating IRAs you inherit from your spouse.

10. **There is no automatic waiver to fix an inadvertent IRA rollover error.**

    If you inadvertently roll over more than one IRA distribution in a 12-month period (or roll over a distribution after the 60-day period has expired), unfortunately the IRS will treat the distribution as taxable in the year distributed. You may also owe an additional 10% early withdrawal penalty on the taxable amount if you are younger than age 59 ½, unless you qualify for an exception to that penalty. In addition, the erroneous deposits will be treated as regular IRA contributions to the receiving IRA, not as rollover contributions. If your additional deposits are more than the annual limitation on IRA contributions

($5,500 or $6,500 if you are 50 or older), you may also have inadvertently created an excess contribution which is subject to a 6% tax penalty that applies for each year the excess goes uncorrected.

Work together with your financial consultant and your tax professional if you are considering making a tax-free move with your IRA. Direct transfers between IRA accounts or financial institutions remain the best way to preserve the tax-deferred advantages of your IRA and to avoid inadvertent tax implications.

ROLLOVER CHART

The following chart indicates the rollovers that are permitted between various types of plans.[ii]

	Roll To							
Roll From	Roth IRA	Traditional IRA	SIMPLE IRA	SEP IRA	Governmental 457(b) Plan	Qualified Plan[1] (pre-tax)	403(b) Plan (pre-tax)	Designated Roth Account (401(k), 403(b) or 457(b))
Roth IRA	Yes[2]	No	No	No	No	No	No	No
Traditional IRA	Yes[3]	Yes[2]	No	Yes[2]	Yes[4]	Yes	Yes	No
SIMPLE IRA	Yes[3], after 2 years	Yes[2], after 2 years	Yes[2]	Yes[2], after 2 years	Yes[4], after 2 years	Yes, after 2 years	Yes, after 2 years	No
SEP IRA	Yes[3]	Yes[2]	No	Yes[2]	Yes[4]	Yes	Yes	No
Governmental 457(b) Plan	Yes[3]	Yes	No	Yes	Yes	Yes	Yes	Yes[3,5]
Qualified Plan[1] (pre-tax)	Yes[3]	Yes	No	Yes	Yes[4]	Yes	Yes	Yes[3,5]
403(b) Plan (pre-tax)	Yes[3]	Yes	No	Yes	Yes[4]	Yes	Yes	Yes[3,5]
Designated Roth Account (401(k), 403(b) or 457(b))	Yes	No	No	No	No	No	No	Yes[6]

1 Qualified plans include, for example, profit-sharing, 401(k), money purchase and defined benefit plans
2 Only one rollover in any 12-month period
3 Must include in income
4 Must have separate accounts
5 Must be an in-plan rollover
6 Any amounts distributed must be rolled over via direct (trustee-to-trustee) transfer to be excludable from income
For more information regarding retirement plans and rollovers, visit Tax Information for Retirement Plans.

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[i] *IRS Announcement 2014-32 (issued November 10, 2014)*
[ii] *Source: IRS Publication 590-A (2015) https://www.irs.gov/pub/irs-pdf/p590a.pdf*