Money Matters

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Skloff Financial Group Question of the Month: IRA One-Rollover-Per-Year Rule

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Q: Are there any tax ramifications to rolling over my Individual Retirement Account (IRA)?

A: The Problem — Taxes and Penalties on Improper Rollovers
Beginning in 2015, there are new IRS rules for IRA Rollovers. You can only make one rollover of one IRA to another (or to the same IRA) in any 12-month period, no matter how many IRAs you own. The limit includes all IRAs, including: SEP IRAs, SIMPLE IRAs, Roth IRAs and Traditional IRAs.

If you violate the new rules you may be subject to reporting the rollover as income and a 10% early withdrawal penalty. If the distributed amount stays in the new (or same) IRA, you may be subject to a 6% tax each year.

The Solution — Understanding and Utilizing the Exemptions
Internal Revenue Code Section 408(d)(3) provides an exemption to reporting the income from an IRA distribution if you deposit the amount into an eligible retirement plan (such as an IRA) within 60 days. But, a second rollover within a 12-month period would violate the new rules. The following is an example of an exemption and violation of the new rules.

Violation Example. In January, you receive a distribution check from your bank for your IRA made payable to you. In February (less than 60 days later), you deposit the check into an IRA at your credit union. In March, you receive a distribution check from your credit union for your IRA made payable to you. In April (less than 60 days later), you deposit the check into an IRA at your investment firm. **Even though each distribution was deposited into an IRA within 60 days, having more than one distribution check payable to you violates the new rules.**

Exemption Example. Fortunately, there is a very easy method to avoid the one time limit in a 12-month period. If the rollover is from one trustee to another trustee ("Trustee-to-Trustee Transfer") the rollover is exempt from the new rules. In fact, Trustee-to-Trustee Transfers are not limited. In January, you receive a distribution check from your bank for your IRA made payable to your credit union. In February (less than 60 days later), you deposit the check into an IRA at your credit union. In March, you receive a distribution check from your credit union for your IRA made payable to your investment firm. In April (less than 60 days later), you deposit the check into an IRA at your investment firm. **Because each distribution was deposited into an IRA within 60 days and the rollovers were Trustee-to-Trustee Transfers, each rollover was exempt from the new rules.**

Prior to 2015. Prior to 2015, you could complete the same number of Internal Revenue Code Section 408(d)(3) transfers as the number of IRAs that you had. For example, if you had 10 IRAs you could complete one rollover for each IRA (for a total of 10) during a 12-month period.

Action Step — Utilize the IRA Rollover Exemption to Avoid Limitations and Taxes
When rolling over your IRA, direct your trustee to make the check payable to the other trustee. Completing a Trustee-to-Trustee Transfer provides you flexibility to make additional rollovers during a 12-month period.

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