IRA-to-IRA Rollovers (and the Transfer Alternative)

TRADITIONAL, ROTH, AND SIMPLE IRAS

You may or may not be familiar with the terms rollover and transfer. These are terms given to how you can move IRA assets between IRAs. Rollovers and transfers can occur when moving assets from traditional IRA-to-traditional IRA, traditional IRA-to-SIMPLE IRA, Roth IRA-to-Roth IRA, SIMPLE IRA-to-SIMPLE IRA, and SIMPLE IRA-to-traditional IRA. SEP IRAs are considered traditional IRAs for purposes of this brochure. This brochure will answer questions you may have about rollovers and transfers.

What is a Rollover?

An IRA-to-IRA rollover occurs when you receive a distribution from an IRA and subsequently roll part or all of the assets back to the same IRA or another eligible IRA. Although a distribution and subsequent rollover allow you to "use" or "control" the assets for a period of time, this transaction comes with rules. You must complete a rollover within 60 calendar days after the date you receive the distribution, and you are limited to one rollover per 1-year (12-month) period.

Are There Any Exceptions to the 60-Day Rule?

The Secretary of the Treasury may waive the 60-day period for completing rollovers in certain situations such as casualty, disaster, or other events beyond the reasonable control of the individual who is subject to the 60-day period. The IRS also provides for a self-certification procedure (subject to verification on IRS audit) that you may use to claim eligibility for a waiver of the prohibition against making a rollover after the 60-day period. The IRA custodian/trustee may rely on the certification in accepting and reporting receipt of the rollover contribution.

What is a Transfer?

A transfer is a direct movement of assets between IRAs of the same type, which also involves moving IRA assets directly from one IRA custodian/trustee to another. Because a transfer is not a distribution and you do not take control of the assets, there are no frequency restrictions. Therefore, you can transfer IRA assets as many times in a 12-month period as you like. The IRS encourages this transfer methodology in its guidance. Also, there are no reporting obligations by either you or your IRA custodian/trustee for these transfer transactions.

One Per 1-Year Limitation and Its Effects

Is the 1-Year Period Determined by Calendar Year?

The one rollover per 1-year limitation on IRA rollovers has complexity. The 1-year period is not determined by calendar year. Rather, it is one year from the receipt date of the distribution that is rolled over.

Example

Susan received an IRA distribution on July 21, 2016, that she subsequently rolled over to an IRA within the 60-day time frame. Susan is able to receive distributions from her IRA at any time. However, she is not eligible to receive a distribution that is eligible for rollover until July 21, 2017.

Example

Christopher received an IRA distribution on January 26, 2017. He received a second distribution on March 3, 2017. Only one of these distributions may be eligible to be rolled over.

Does the 1-Year Period Apply on a Per IRA Basis?

No. The one rollover per 1-year limitation on IRA rollovers is an aggregate limit and not on an IRA-by-IRA basis. This means you can only make one rollover per year without regard to how many IRAs you have or what type of IRAs they are. However, if you receive one distribution that is eligible for rollover, part or all of the distribution can be rolled over to an IRA in multiple contributions within the 60-day period.

Example

Burt has the following IRAs:

Roth IRA #1—$8,000 balance

Roth IRA #2—$10,000 balance

On June 2, 2017, Burt receives $5,000 from Roth IRA #1 and subsequently rolls over $3,000 of it on June 16, 2017, and the remaining $2,000 on July 28, 2017, to Roth IRA #2. Burt cannot receive another distribution that is eligible for rollover from any of his IRAs until June2, 2018.

Example

Marshaun has the following IRAs:

Traditional IRA—$50,000

Roth IRA—$23,000

On December 5, 2016, Marshaun receives a distribution of $15,000 from his traditional IRA and rolls it over into a new traditional IRA on January 18, 2017. Marshaun cannot receive a distribution that is eligible for rollover from any of his traditional or Roth IRAs until December5, 2017.

What Rollover-Like Transactions are Exempt From the One Rollover Per 1-Year Limitation?

The 1-year limitation does not apply to rollovers related to first-time homebuyer distributions, traditional IRA distributions converted to a Roth IRA, recharacterizations between traditional and Roth IRAs, and rollovers to or from an employer-sponsored retirement plan (e.g., 401(k) plan).

What Does This Mean For Me?

You are limited to one rollover per 1-year period. You need to plan wisely and only use the rollover option when the situation dictates you need use of your IRA assets. Otherwise, you always have the option to transfer assets directly between IRAs with the same or different custodian/trustee. You can transfer an IRA as many times during a 1-year period as you like. You may be subject to transfer fees by your custodian/trustee and be required to complete additional documents for the current and new custodian/trustee.

What Happens if I Complete More Than One Rollover in a 1-Year Period?

If you complete more than one rollover in a 1-year period, the second rollover is considered an ineligible contribution and may be taxable and subject to an additional 10% penalty tax for early distribution if you are younger than age 59 1/2. The ineligible amount rolled over is then treated as a current year regular contribution. This could result in a 6 percent penalty tax if you exceed the maximum allowable contribution (generally $5,500 or $6,500 for 2017 depending on your age) for the deposit year. If the contribution for the year of deposit is in excess of your contribution limit for that year, a 6 percent penalty tax is assessed to you for each subsequent year it is not corrected. Additionally, a 20 percent penalty tax could be imposed for underpayment attributable to negligence or disregard of the regulations or substantial understatement of income tax. Finally, funds that are not eligible to be held in an IRA (e.g., if they are not eligible for rollover) may not be protected from attachment or other attempts at collection.

Example

Lucia, age 35, received a $10,000 distribution from her Roth IRA on October 10, 2016, and then rolled it over within 60 days. On May 23, 2017, Lucia received $50,000 from her traditional IRA and rolled it over in violation of the 1-per-year rule. The $50,000 distribution is ineligible for rollover and is subject to income tax. Lucia may apply $5,500 of the ineligible rollover as her 2017 regular contribution. If not timely corrected, Lucia may have understated gross income by as much as $50,000. She may owe an additional $19,800 in federal income tax for this amount and may be subject to a 20% penalty tax for substantial understatement of income tax under certain circumstances. Lucia owes a 10% early distribution penalty tax on the taxable portion of the $50,000 distribution from her traditional IRA. If Lucia does not remove the excess contribution plus earnings attributable by the 2017 tax-filing due date, including extensions, she will also owe a 6% excess contribution penalty tax for each year it is not corrected. She may also be subject to state income tax. Lucia could have avoided all of these potential taxes by making a transfer.

This brochure is intended to provide general information on federal tax laws governing IRA-to-IRA rollovers and transfers. It is not intended to provide recommendations, legal advice, or to be a detailed explanation of the rules or how such rules may apply to your individual circumstances. For specific information, you are encouraged to consult your tax or legal professional. IRS Publication 590-A, Contributions to Individual Retirement Arrangements (IRAs), IRS Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs), IRS Form 1040, U.S. Individual Tax Return, IRS Form 1040 Instructions, and the IRS's web site, www.irs.gov, may also provide helpful information.

Fleetwood Bank®

www.fleetwoodbank.com

Wolters Kluwer Financial Services © 2016
To Reorder Form: 1.800.552.9410

IRA-ROLL-BRO Rev . 11/1/2016