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# **IRAs & Roth IRAs**

A vertical rectangular area with a faded, grayscale background image of the Statue of Liberty and the American flag. The text is overlaid on the upper portion of this area.

# **IRA-to-IRA Transfers & Rollovers**

**Questions & Answers**

## **Purpose:**

The intent of this brochure is to provide an overview of rollovers and transfers between traditional IRAs and Roth IRAs. It does not cover SIMPLE-IRAs and rollovers from or to qualified plans and section 403(b) plans. It does not cover making a Roth IRA conversion. Different brochures cover these subjects. Since rollovers and transfers have very important tax implications, we strongly advise you to consult with your tax advisor. Generally, a person will want to structure the transaction as a transfer rather than as a rollover.

## **Why might I want to transfer or rollover my IRA?**

You want to change the IRA custodian/trustee for customer service reasons or you might decide to change how your IRA funds are being invested. However, you do not want this change to result in your owing any current federal income taxes. If structured correctly, you do not owe current income taxes for the transfer or rolling over of your IRA funds.

## **What is a transfer?**

A transfer of funds in your traditional IRA from one trustee directly to another, either at your request or at the trustee's request, is not a rollover. The funds are never paid or distributed to you. Because there is no distribution to you, the transfer is tax-free. Because it is not a rollover, it is not affected by the 1-year waiting period required between rollovers.

## **How is a transfer actually made?**

A transfer form should be completed by both IRA custodians or trustees. The IRA trustee or custodian losing the funds (i.e. the funds which you want transferred) will want items for its file to substantiate why it did not prepare a Form 1099-R. First, it will want your written instruction to transfer specific IRA funds. Second, it will want the new or receiving IRA trustee or custodian to certify that you have established an IRA with the new institution.

The current IRA custodian/trustee will issue a check to the new IRA custodian/trustee for the benefit of Mary Doe's IRA. This check will be issued only after you instruct the current IRA custodian in writing that you wish to transfer the funds. The right to transfer funds is contractual and does not exist under all IRA agreements. You need to check your plan agreement to see if there is a right to transfer funds. There may well be a charge associated with this special service.

The new IRA trustee or custodian will want the remitting custodian/trustee to certify that the funds are IRA funds.

## **What are the IRS reporting requirements for a transfer?**

At this time, there are no reporting requirements. Only distributions to the account holder or a beneficiary must be reported. With a transfer, there has been no such distribution.

## **Is it permissible to transfer a required minimum distribution?**

Yes. You will be responsible to make sure that your required distribution is made by the appropriate deadline from the new IRA custodian.

## **Is there a limit on IRA transfers?**

The governing law does not impose a limit on the frequency of moving IRA funds via transfer. Your IRA plan agreement, as sponsored by your IRA custodian or trustee, may contain limits.

## **Will there be withholding from an IRA transfer?**

No. There is no taxable distribution.

## **May an IRA Custodian/Trustee Charge a Reasonable Transfer Fee?**

Yes, the two IRA custodian/trustees are rendering you a valuable service when a transfer is completed versus a rollover transaction. Neither IRA custodian will prepare an IRS reporting form. So, you are not required to report a transfer on your income tax return and incur an extra tax preparation cost.

## **What is a rollover?**

There are actually two transactions comprising a rollover transaction. First, you withdraw or are distributed funds from your IRA. Second, you make a subsequent rollover contribution into an IRA. A distribution from an IRA must generally be included in your income. If you comply with the rollover rules you're not required to include the amount rolled over in your income. However, you must explain the rollover on your tax return.

## **What is a rollover and why would I want to roll over funds from an IRA into another IRA?**

A rollover is an exception to the general rule that an IRA distribution is taxed. The movement of funds in a rollover is as follows: A person withdraws funds from his or her IRA and then redeposits these funds into another IRA or the same IRA.

Even though you were paid the funds, you will not have to include the amount received as gross income if the rules summarized in this brochure are met. That is, you avoid paying current taxes on the distribution amount, plus the 10% excise tax which would apply if you were not yet age 59<sup>1/2</sup> (unless a special exception applied). These recontributed funds plus related earnings will continue to compound or grow on a tax-free basis and will not be taxed until a future taxable distribution occurs.

## **When do I qualify to roll over funds from an IRA to another IRA?**

If you receive a distribution from your IRA, you can roll over these funds by redepositing them into an IRA if: (1) the funds are rolled over within 60 days after the day the funds are received, and (2) you have not rolled over a previous distribution from any IRA within the last 12 months. The 60-day period begins on the day after the day you receive a distribution.

## **Is it permissible to roll over a required minimum distribution?**

No. The law expressly provides that a required minimum distribution is not eligible to be rolled over. An excess contribution occurs if there is an attempt to roll over a required distribution. The tax law also provides that the first distribution(s) from an IRA subject to the RMD rules are the required distribution(s).

## **What is the time limit for making a rollover contribution?**

You generally must make the rollover contribution by the 60th day after the day you receive the distribution from your traditional IRA or your employer's plan.

**Example.** You received an eligible rollover distribution from your traditional IRA on March 16, 2020, that you intend to rollover to another traditional IRA. To postpone including the distribution in your income, you must complete the rollover by May 15, the 60th day following March 16.

## **When does the 60-day rollover period end?**

The IRS has never formally stated that a person has until the following business day to make his or her rollover if the 60th day ended on a Saturday, Sunday or legal holiday. Therefore, the conservative approach is to complete the rollover on or before the 60 days, without extension.

## **Has the IRS issued new guidance if a person misses the 60-day limit?**

Yes, the IRS authorizes you to furnish a self-certification rollover form to the IRA custodian if you failed to meet the 60-day requirement because of an event beyond your control. The IRS may then ask you for additional information so the IRS can verify that you qualified to make the rollover.

## **Does the IRS have the authority to grant relief if a person misses their 60-day rollover deadline?**

Yes. The law requires the IRS to grant relief (extend the time to make a valid rollover) when equity and fairness requires it. IRS guidance provides there are three ways to obtain this relief. You may write the IRS and submit your request for relief. You may file a special form with your IRA custodian certifying that you are making a late rollover. In some cases if the mistake was the sole fault of the IRA custodian, automatic relief is granted.

## **Is the once per 12-month rule or 365-day rule per IRA plan agreement rule?**

No. It is on a per person and a per distribution basis. Only one distribution within a 365-day period is eligible to be rolled over.

## **What is the consequence if I would roll over two IRA distributions within a 12-month period?**

The distribution rolled over second would be an excess contribution since it is ineligible to be rolled over. If it was distributed from a traditional IRA, it would be taxable unless some portion was the return of basis. The annual 6% excise tax applying to excess contributions would apply unless corrected (i.e. withdrawn) by the appropriate deadline. Any attempted rollover contribution not meeting any one of the rollover rules would be an excess contribution.

## **What amount of an IRA distribution must I roll over?**

You do not have to roll over the entire distribution. You can roll over as much or as little as you want. Any portion you do not roll over is taxable immediately, and may be subject to IRS penalties if the distribution is a premature (pre-age 59<sup>1/2</sup>) withdrawal.

## **Am I permitted to make multiple rollover contributions of my one IRA distribution?**

The IRS should furnish additional guidance on this subject. You should discuss with your tax adviser. The law as written expressly authorizes only one distribution during a 12-month period. It would seem that a person could make multiple rollover contributions from one distribution as long as they are completed during the 60-day period, but IRS guidance is not clear.

## **Does federal withholding apply?**

Yes. Any distribution from an IRA requires an income tax withholding election, since the distribution transaction is a taxable event if you do not recontribute the funds within 60 days. You may elect to have NO withholding. Absent such an election, the custodian/trustee is required to withhold 10% of the distribution.

## **What are the reporting requirements for a rollover?**

The IRA custodian which distributes the IRA funds will generate an IRS Form 1099-R to report that a distribution has been made. If the funds are rolled over to an IRA, the new custodian or trustee will report the rollover contribution on Form 5498. Even if you roll over the entire amount of the funds, you will have to properly report this on your income tax return. You will explain the distribution is not taxable since you rolled it over.

## **How do I treat a rollover on my tax return?**

You would report the total or gross amount of the IRA distribution, and the taxable amount. If the entire distribution is rolled over, the taxable amount is zero. The taxable amount is generally that portion not rolled over.

## **May I roll over the funds to an IRA I already have?**

Yes. You do not need to open a new IRA. The funds may be deposited into an existing IRA.

## **Do special rollover or repayment rules apply to a disaster distribution?**

Yes. You should review IRS Form 8915 and consult with your tax adviser. In general, the once per year rule and the 60-day rule do not apply to a disaster distribution. Rather, a person is granted three years to repay or rollover such distribution.

## **If I die, does my beneficiary have any rollover rights?**

If the sole beneficiary of your IRA is your spouse, then he or she may elect to treat your IRA as his or her own IRA. If your spouse is one of your designated beneficiaries, but he or she is not your sole beneficiary, he or she is ineligible to treat your IRA as his or her own IRA. However, such spouse beneficiary is eligible to roll over to an IRA his or her share, but not any required distribution.

A non-spouse beneficiary is ineligible to rollover any distribution from an inherited IRA to the beneficiary unless an erroneous distribution occurs on account of the IRA custodian/trustee or its agent. A non-spouse beneficiary who requests a distribution will be unable to rollover the distribution. If an error has occurred a non-spouse beneficiary is to use the rules the IRS has adopted for certifying and making a late rollover.

A non-spouse beneficiary who wishes to move an inherited IRA must have it transferred.

## **Are rollovers and transfers subject to the annual IRA contribution limit?**

No. There is no maximum contribution limit for a rollover contribution or for a transfer contribution.

## **Am I ineligible to make a rollover or transfer because I am older than the RMD age?**

No. You can establish an IRA by making a rollover or transfer contribution even though you are older than the RMD age. You still must comply with the required minimum distribution rules.

## **What property must I roll over?**

You must roll over into the new IRA the same property (cash, stocks, real estate) which you withdrew from your old IRA. There is no authority — as there is with qualified plan distributions — for you to roll over the proceeds of the sale of the property.

## **The tax situation you must be sure to avoid?**

You are authorized to rollover only one distribution in a 365 day period. This is called the once per year rule. If you take two distributions, you're authorized to roll over only one of them. The IRS takes the position it has no authority to grant tax relief to a person who takes two distributions in the one year time period.

This means you are not allowed to withdraw funds from your traditional IRA and your Roth and then make two rollover contributions. You would be able to rollover one of the two distributions. You can avoid this situation by transferring both distributions or at least one of the distributions.

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## **ROTH IRA-TO-ROTH IRA**

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### **May I transfer funds from a Roth IRA to another Roth IRA?**

Yes. Transfers between Roth IRAs are permissible. The same procedures to be used for traditional IRAs should be used. except a transfer form for Roth IRAs must be used.

### **If I receive a distribution from one Roth IRA, may I roll over the funds to a second Roth IRA?**

Yes. The rules which govern a "Roth-to-Roth" rollover are generally the same as for a rollover from one traditional IRA to another traditional IRA. You must comply with the 60-day rule and you are only entitled to one rollover within a 12-month period as discussed earlier.

Although funds you withdraw from a Roth IRA may not be taxable since you might be withdrawing basis, if you do not comply with the rollover rules, you lose the right to rollover such funds into a Roth IRA and have the future income be tax-free when distributed.

*The information provided in this brochure is not intended to be legal or tax advice. You should consult your attorney or tax advisor for information that relates to your specific circumstances.*