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. The ineligible amount rolled over is then treated as a current year contribution. This could result in a 6 percent penalty tax if you exceed the maximum allowable contribution (generally $5,500 or $6,500 for 2015 depending on your age) for the deposit year. The 6 percent penalty 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, took a $10,000 distribution from Roth IRA A on October 9, 2015, and then rolled it over within 60 days. On January 22, 2016, Lucia took $50,000 from traditional IRA B and rolled it over in violation of the 1 per year rule. The $50,000 distribution is ineligible for rollover and was fully taxable. If not timely corrected, Lucia understated gross income by $50,000. She owes an additional $19,800 in income tax for this amount--and may be subject to a 20% penalty for substantial understatement of income tax under certain circumstances. Lucia owes a 10% early distribution penalty tax on the amount. If Lucia does not remove the excess plus earnings attributable by the 2016 tax-filing due date, including extensions, she will also owe a 6% excess contribution penalty for each year it is not corrected. She could use $5,500 for her 2016 regular contribution.

This brochure is intended to provide general information on federal tax laws governing the one rollover per 1-year (12-month) limitation. It is not intended to provide 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, 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.***

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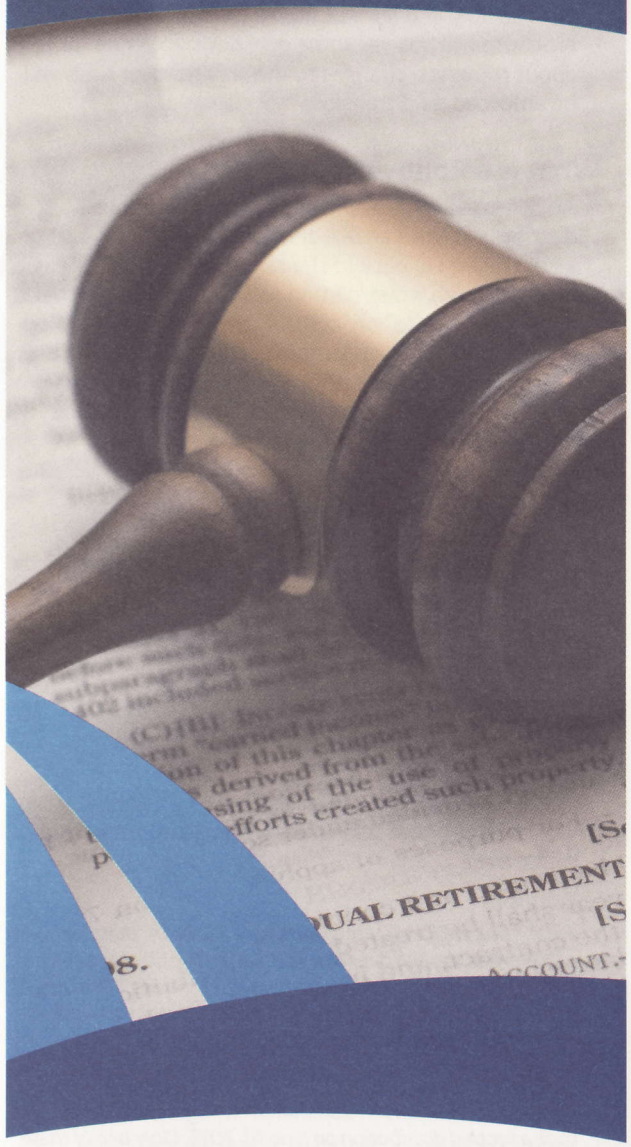
IRA-to-IRA Rollovers: One Per 1-Year Limitation and Its Effects



TRADITIONAL, ROTH AND SIMPLE IRAS

A development has occurred that will affect how you move your IRA assets between 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, Roth IRA to Roth IRA, SIMPLE IRA to SIMPLE IRA, and SIMPLE IRA to a traditional IRA. This brochure will answer some questions you may have about rollovers, changes to the way rollover rules will be enforced, and transfers.

What is a Rollover?

An IRA-to-IRA rollover occurs when you take 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 days after the date you receive the distribution, and you are limited to one rollover per 1-year (12-month) period.

What is a Transfer?

A transfer is a direct movement of assets between IRAs of the same type. Because a transfer is not a distribution and you do not take control of the assets, there are no frequency restrictions, so you can transfer as many times in a 12-month period as you like.

Is the 1-Year Period Determined by Calendar Year?

The 1-year period is not determined by calendar year. Rather, it is 1-year from date of the distribution that is rolled over.

Example

Susan took an IRA distribution on April 10, 2014, that she subsequently rolled over to an IRA within the 60-day time frame. Susan is able to take distributions from her IRA at any time. However, she is not eligible to take a distribution that is eligible for rollover until April 10, 2015.

Example

Christopher took an IRA distribution on May 15, 2015. He took a second distribution on June 10, 2015. Only one of these distributions may be rolled over.

Tax Court Ruling Addresses IRA Rollover Rules

What Did the Tax Court Rule?

The Internal Revenue Service (IRS) has been enforcing the one rollover per 1-year period on a per IRA basis, and IRS Publication 590, *Individual Retirement Accounts (IRAs)*, supports this position.

In 2014, a tax court ruling held that an individual who had followed the IRS's enforcement guidelines (proposed regulation and Publication 590) had violated the Internal Revenue Code (IRC) one rollover per 1-year period limitation and owed taxes and penalties associated with the individual's ineligible second rollover. Following this tax court ruling the IRS issued Announcement 2014-15 and then later withdrew the proposed regulation in July of 2014.

What Did IRS Announcement 2014-15 State?

The IRS intends to follow the Tax Court's interpretation of the statutory (IRC) one-rollover-per-year limitation on IRA rollovers as 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 IRA they are. Additionally, it stated that IRS enforcement would not occur before January 1, 2015.

Prior to Announcement 2014-15 and the withdrawal of the proposed regulation, the one rollover per 1-year limitation was applied separately to each IRA agreement (not to each investment within an IRA).

Prior to Tax Court Ruling and Announcement 2014-15

Example 1—One Rollover Per-Year (Per IRA) Rule

Burt has the following IRAs:

- *Traditional IRA #1—$8,000 balance*
- *Traditional IRA #2—$10,000 balance*
- *Traditional IRA #3—$12,000 balance*

On February 1, 2014, Burt took a distribution of $5,000 from IRA #1 and subsequently rolled over $5,000 on February 6, 2014 to IRA #2. Burt cannot take a distribution that is eligible for rollover from either IRA #1 or IRA #2 until February 1, 2015. However, Burt could take a distribution from IRA #3 on March 15, 2014, and complete rollover of that distribution to any IRA within 60 days.

Following Tax Court Ruling and Announcement 2014-15

Example 2—One Rollover Per-Year (Per Individual) Rule: Single Distribution, Multiple Contributions

This example assumes the IRS's revised position applies at the time of distribution.

Burt has the following IRAs:

- *Roth IRA #1—$8,000 balance*
- *Roth IRA #2—$10,000 balance*
- *Traditional IRA #3—$12,000 balance*

On February 1, 2015, Burt takes $5,000 from Roth IRA #1 and subsequently rolls over $3,000 of it on February 6, 2015, and the remaining $2,000 on February 9, 2015, to Roth IRA #2. Burt cannot take another distribution that is eligible for rollover from any of his Roth or traditional IRAs until February 1, 2016.

Example 3—Multiple IRA Types

Marshaun has the following IRAs:

- *Traditional IRA #1 - $50,000*
- *Roth IRA #2 - $23,000*

On June 17, 2015, Marshaun takes a distribution of $15,000 from the Roth IRA and rolls it over to a new Roth IRA on August 3, 2015. Marshaun cannot take a distribution that is eligible for rollover from any of his IRAs until June 17, 2016.

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 eligible retirement plan.

What Does This Mean For Me?

You are limited to one rollover per 1-year (12-month) 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. Remember, you can transfer an IRA as many times during a 12-month period as you like. You may be subject to transfer fees by your custodian/trustee and be required to complete special documentation for the current and new custodian/trustee.