

Only One IRA Rollover Every 12 Months – Period!

Article Highlights:

- One rollover per 12-month period
- Tax consequences
- Difference between a rollover and a transfer
- Relief

Although this subject has been brought up before—and, yes, we are harping on the subject because of the profound tax consequences—this is a reminder that, beginning this year, individuals are only allowed one IRA rollover in any 12-month period (this includes SEP and Simple accounts, traditional and Roth IRAs). That is, 12 months must have elapsed from the date a rollover is completed before another rollover can be made. Failure to abide by this rule can be expensive. And the rule applies no matter how many IRAs an individual owns.

Example – Joe makes an IRA rollover on March 1, 2015. He cannot roll over another IRA distribution, without penalties, until March 2, 2016.

If Joe, in the example, were to make another IRA rollover before March 2, 2016, that entire distribution would be treated as a taxable distribution and would also be subject to the 10% early distribution penalty if Joe is under the age of 59.5 at the time of the distribution. Additionally, if Joe deposited the distributed amount into another IRA, or redeposited the funds into the same IRA, those funds are treated as an excess contribution and are subject to a 6% penalty per year for as long as they remain in the IRA.

That doesn't mean you can't transfer funds between IRA trustees multiple times during the year. In a rollover, a taxpayer takes possession of the funds and then must redeposit them within 60 days to avoid being taxed on the distribution. In contrast, a transfer moves the funds directly from one trustee to another with the taxpayer never taking possession of the funds. Unlimited direct transfers are allowed, including moving traditional IRA funds to a Roth IRA (called a conversion).

If, through no fault of yours, a trustee does not follow your instructions to make a transfer and instead distributes the funds to you, procedures are available to obtain relief.

If you are planning an IRA rollover, before taking the distribution, please check with your IRA trustee or call this office to ensure you are not violating the 12-month rule.