

IRAs & Roth IRAs

IRA-to-IRA Rollovers & Transfers

*Including Rules for
SIMPLE-IRAs & Roth IRAs*

Questions & Answers

Purpose:

The intent of this brochure is to provide an overview of rollovers, transfers, and conversions between traditional IRAs, SIMPLE-IRAs and Roth IRAs. It does not cover Coverdell Education Savings Accounts (formerly known as Education IRAs) and rollovers from or to qualified plans and section 403(b) plans. A different brochure covers these subjects. Since rollovers and transfers have very important tax implications, we strongly advise you to consult with your tax advisor.

IRA-TO-IRA

If I am paid funds from my IRA, what are the tax consequences?

The general rule is that the funds paid to you will be included in your income and taxed at ordinary income tax rates.

What is a rollover?

A rollover is an exception to the general rule that IRA distributions are taxed. The movement of funds in a rollover is as follows: the original IRA pays the funds to a person who then redeposits these funds into another 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. These “rolled over” funds 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 the same IRA within the last 12 months. The 60-day period and the 12-month period begins on the date you receive a distribution.

Am I ineligible to make a rollover or transfer because I am older than age 70½?

No. You can establish an IRA by making a rollover or transfer contribution even though you are older than age 70½. You still must comply with the required minimum distribution rules.

What is meant by “the same” IRA?

If you have two IRA plan agreements, IRA-1 at institution #1 and IRA-2 at institution #2, and you roll over assets of IRA-1 into a new IRA-3, you may also roll over assets from IRA-2 into IRA-3 or any other IRA within one year after the distribution from IRA-1. These distributions are both eligible to be rolled over, since you are allowed one rollover per separate IRA plan agreement. However, within the one-year period you cannot again roll over the assets you rolled over into IRA-3 into any other IRA.

What property must I roll over?

You must roll over into the new IRA the same property (cash, stocks, real estate) which you received 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.

Am I eligible to roll over a required minimum distribution?

No. If you do, you will have made an excess IRA contribution.

Why would I want to roll over funds from an IRA into another IRA?

You will avoid paying current taxes, which is the normal result when a distribution is received. 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 59½ (unless a special exception applied).

These recontributed funds plus related earnings will continue to compound or grow until distribution commences.

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 59½) withdrawal.

Will withholding be taken from a distribution I plan to roll over?

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, if you so choose. Absent such an election, the custodian/trustee is required to withhold at a rate of 10% from any nonperiodic distribution.

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.

There are two exceptions to the 60-day rule. First, if your distribution deposit was put into an institution which has had its deposits “frozen,” then you may have longer than 60 days to complete the rollover. Refer to IRS Publication 590 for a discussion of the special “frozen deposit” rules. The second exception is, if you withdrew your funds for purposes of using such funds under the First-Time Home Buyer exception, but your acquisition or construction was delayed, then the 60-day limit is changed to 120 days.

What are the reporting requirements for a rollover?

The institution that pays the 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.

How do I treat a rollover on my tax return?

You would report the total amount of the IRA distribution, and the taxable amount. 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.

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 and will retain all rollover rights. 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. Such funds could also be transferred. A non-spouse beneficiary is ineligible to rollover inherited IRA funds which have been paid to him or her. A nonspouse beneficiary is eligible to transfer inherited IRA funds into another inherited IRA.

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 will be the required distribution(s).

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.

What is a transfer?

The effect of a transfer is the same as that of a rollover. Funds are moved from one IRA to another without any immediate tax consequences.

However, transfers are distinguished from rollovers because in a transfer the funds move directly from one custodian or trustee to the successor custodian or trustee. That is, the funds are never paid or distributed to you.

How is a transfer actually made?

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 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 new IRA trustee or custodian will want the remitting custodian/trustee to certify that the funds were IRA funds. The new trustee may also want to know the “history” of the funds for conduit IRA rollover purposes and for required minimum distribution purposes.

What are the reporting requirements for a transfer?

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

Is it permissible to transfer a required minimum distribution?

Yes. The IRS has clarified, in the final RMD regulation, that you, or any other person subject to the RMD rules, may transfer your entire traditional IRA to another traditional IRA, including any portion which is a required distribution for the current year. You will be responsible to make sure that your required distribution is made by the appropriate deadline.

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?

Income tax should never be withheld from a transfer, because the accountholder has no opportunity to keep and use the funds, and, therefore, there is no taxable transaction.

SIMPLE-IRA-TO-SIMPLE-IRA AND SIMPLE-IRA-TO-IRA

Do special rules apply to rollovers or transfers from or to SIMPLE-IRAs?

Yes. A SIMPLE-IRA is an IRA established by a person so that he or she is eligible to participate in his or her employers' Savings Incentive Match Plan for Employees of small employers (SIMPLE). You may roll over or transfer funds from one SIMPLE-IRA to another SIMPLE-IRA, as long as the general IRA rules are satisfied. You are eligible to roll over or transfer funds from a SIMPLE-IRA to a traditional IRA only if such action occurs after you have satisfied a two-year requirement which commences on the date you first participated in the related SIMPLE plan.

You may not roll over or transfer funds from a traditional IRA to a SIMPLE-IRA.

IRA-TO-ROTH IRA

May I roll over or convert part or all of my traditional IRA to a Roth IRA?

A conversion is accomplished by having funds distributed from a traditional IRA and rolling them over to a Roth IRA within 60 days. This can be done internally at your financial institution, or by transfer of the traditional IRA funds at one institution to a Roth IRA at another institution.

Under current rules, in order to convert a traditional IRA to a Roth IRA, your income, or, if married, your and your spouse's combined adjusted gross income must be \$100,000 or less in the year of the conversion, and, if married, you must file a joint tax return.

In 2010, these conversion requirements will be repealed, and any individual, regardless of income or filing status, will be able to convert funds from a traditional IRA to a Roth IRA.

Special tax relief for conversions made in 2010. If you perform the conversion in 2010, a special rule allows you to include 1/2 of the distributed amount in income in 2011, and 1/2 in 2012. No taxes will be owing on the conversion amount in 2010. However, if you desire, you may include the entire amount in income in 2010. If you perform the conversion after 2010, this special tax relief will no longer be available, and the entire amount distributed from the traditional IRA must be included in income in the year the conversion is made.

Whatever conversion method is used, the custodian/trustee of the traditional IRA will prepare a Form 1099-R to report the distribution, and the custodian/trustee of the Roth IRA will prepare a 5498 to report the conversion contribution.

Why might I want to convert my traditional IRA to a Roth IRA?

You may find it advantageous to incur the tax consequences of a present distribution in order to qualify to earn the right to have no taxation when the earnings are ultimately distributed from the Roth IRA.

What are the consequences of receiving a distribution from a traditional IRA and "converting" the distribution to a Roth IRA?

In general, the amount distributed to you from your traditional IRA will be included in your income in the year of

receipt and will be subject to income taxes for that year. The 10% premature distribution excise tax, however, will not be owed even if you are younger than age 59½.

ROTH IRA-TO-ROTH IRA

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

Yes. Distributed funds, unless rolled over, would need to be partially included in income. The purpose of a rollover is to change an otherwise taxable event into a nontaxable event. 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 such rollover within a 12-month period.

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. However, a transfer form for Roth IRAs must be used.

IMPERMISSIBLE ROLLOVERS

A rollover or transfer is permissible only if the federal income tax law permits it and if the applicable plan documents authorize it.

Since the federal income tax law does not authorize the following movements of IRA or other pension money, they do not qualify as nontaxable rollovers. This list is illustrative and is not meant to include all movements which do not qualify.

1. Traditional IRA-to-SIMPLE-IRA
2. Qualified Plan-to-Roth IRA (or vice versa)*
3. Sec. 403(b) Plan-to-Roth IRA (or vice versa)*

* Note — Distributions after December 31, 2007, from eligible retirement plans may be directly rolled over to Roth IRAs.

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.
