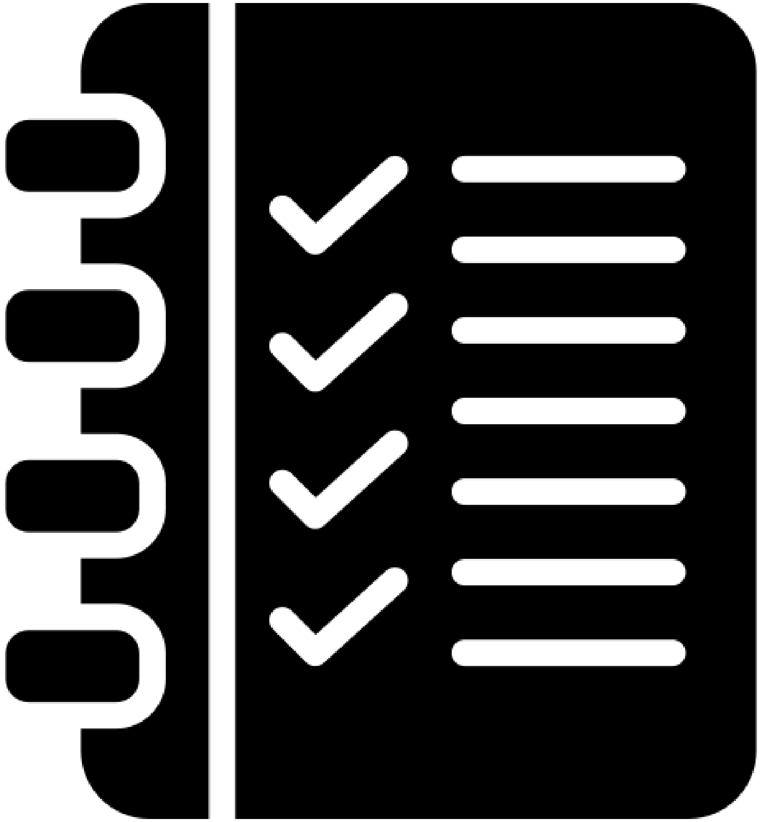
IRA Transfers and Rollovers

OVERVIEW OF TRANSFERS AND ROLLOVERS

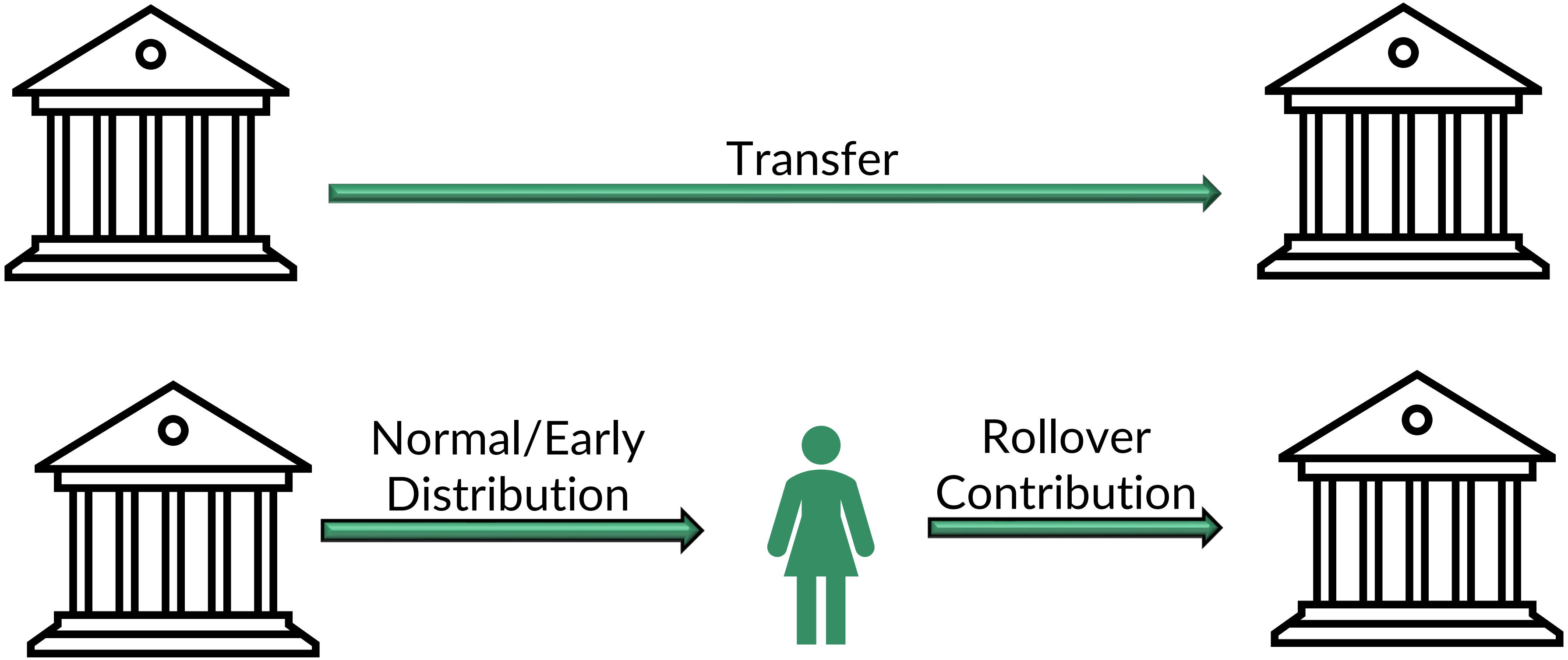
What We'll Cover



- Differences between transfers and rollovers
- General rules for transfers and rollovers
- Timing requirements for rollovers and transfers
- Reporting

IRA-to-IRA Transfers & Rollovers

IRA-to-IRA Transactions



Allowable IRA-to-IRA Transfers & Rollovers

- Traditional IRA (including SEP IRA) to Traditional IRA (including SEP IRA)
- Traditional IRA (including SEP IRA) to SIMPLE IRA*
- Roth IRA to Roth IRA
- SIMPLE IRA to SIMPLE IRA
- SIMPLE IRA to Traditional IRA*

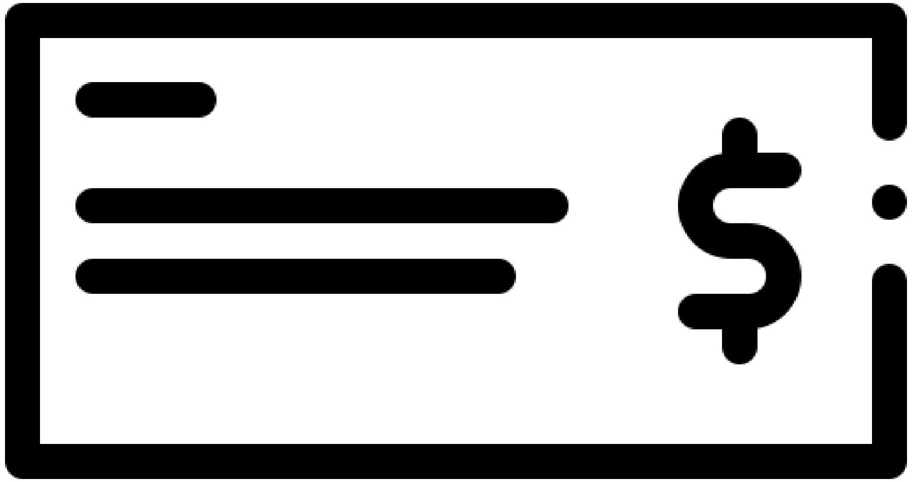
*At least 2 years must have elapsed from the date of the first contribution into the SIMPLE IRA.

IRA-to-IRA Transfers & Rollovers

TRANSFER	ROLLOVER
No Constructive Receipt	Constructive Receipt
Non-reportable	Reportable
No Specific Time Frame	60 Days
No Limit on Frequency	12-Month Rule
No RMD Restriction	RMD Rollover Restriction

Constructive Receipt

- Transfer: Check cut to receiving trustee/custodian – not negotiable by IRA Owner
- Rollover: Check cut to IRA Owner
  - Withholding election applies
  - IRA owner has control of funds (no restrictions on use between distribution/rollover)

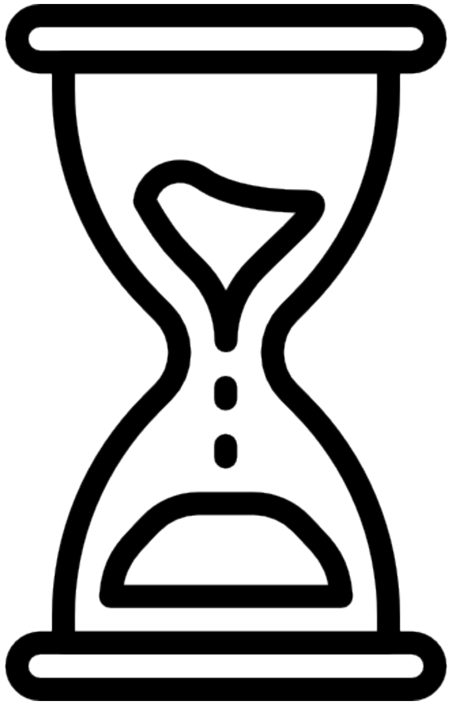


Reporting

- Transfer: No Reporting
  - Transfer Out: Not reported on IRS Form 1099-R
  - Transfer In: Not reported on IRS Form 5498
- Rollover: Reportable
  - Distribution: Reported on IRS Form 1099-R
    - Traditional IRA: Typically Code 1 (early) or Code 7 (normal)
    - Roth IRA: Typically Code Q, J, or T
  - Contribution: Reported on IRS Form 5498 (Box 2)

Timing Restrictions

- Transfer: No prescribed time frame as they are not reported
- Rollovers: 60 days



The Risks of Violating the 60-Day Rollover Restriction

For Taxpayers

- Taxation of initial distribution (and early distribution penalty if under 59½ & no exception)
- 6% excess contribution penalty (per year) on ineligible rollover if exceeds regular contribution limit (rollover contributions made more than 60 days after the distribution is received must be treated a regular contribution for the year)
- Potentially taxable corrective distribution

For Financial Organizations

- Potential recourse from IRA owners

Rollovers Beyond 60 Days

Exceptions to the 60-Day Rule

- Failed first-time home purchase
- Federal disaster relief
- Frozen deposits
- Private Letter Ruling (PLR) waivers
- Automatic Waivers
- Self-certification

Rollovers Beyond 60 Days

Automatic Waivers = Financial Organization Error

- Financial organization received the funds before the end of the 60-day rollover period.
- IRA owner followed all procedures of the financial organization depositing the funds into an eligible IRA within the 60-day period (including giving instructions to deposit the funds into an eligible IRA)
- Funds were not deposited into an eligible IRA within the 60-day period solely because of an error on the part of the financial organization.
- Funds are deposited into an eligible IRA within 1 year from beginning of the 60-day rollover period.
- The transaction would have been valid had the financial organization timely deposited funds as instructed.

“Self-Certification” Option

- Revenue Procedure 2016-47
  - Outlines conditions (or situations) in which self-certification can be claimed
  - Requires IRA owner make a written certification to the IRA custodian/trustee
  - Provides protection for financial organizations accepting rollovers beyond 60-day deadline (unless they have actual knowledge to the contrary)

Situations *Potentially* Eligible for “Self-Certification”

- An error was committed by the financial institution receiving the contribution or making the distribution to which the contribution relates
- The distribution, having been made in the form of a check, was misplace and never cashed
- The distribution was deposited into and remained in an account that the taxpayer mistakenly thought was an eligible retirement plan or IRA
- IRA owner’s principal residence was severely damaged

Situations *Potentially* Eligible for "Self-Certification"

- A member of the taxpayer's family died
- Taxpayer or a member of the taxpayer's family was seriously ill
- Taxpayer was incarcerated
- Restrictions were imposed by a foreign country
- A postal error occurred

Situations *Potentially* Eligible for "Self-Certification"

- The distribution was made on account of a tax levy and the proceeds have been returned to the taxpayer
- The party making the distribution to which the rollover relates delayed providing information that the receiving plan or IRA required to complete the rollover despite the taxpayer's reasonable efforts to obtain the information
- The distribution was made to a state unclaimed property fund (added with Rev. Proc. 2020-46)

Additional Requirements for Self-Certified Late Rollovers

No prior denial by IRS (relative to the distribution in question)

Contribution made as soon as practicable after the reason no longer prevents the taxpayer from making the contribution (30-day safe harbor)

Self Certification ≠ Waiver

- If taxpayer is audited, the IRS can still potentially disqualify rollover contribution if requirements for waiver were not met.
- Primary benefits:
  - Simplified option for IRA owners
  - Reduced risk and liability for financial organizations

Self-Certified Late Rollovers

Financial Organization Considerations

- Financial organizations are not required to accept self-certified rollovers
- Financial organizations may generally rely on taxpayer’s self-certification (but not if the financial organization has actual knowledge that is contrary to the taxpayer’s self-certification)
- Special 5498 reporting requirements apply to self-certified late rollovers

IRA-to-IRA Transfers & Rollovers

Frequency Limitation

Transfers: No Limit

Rollovers: Only one IRA distribution (per individual) may be rolled over within a 12-month period

IRA-to-IRA Transfers & Rollovers

RMD Restriction

Transfers: OK to transfer RMD

Rollovers: Explicit RMD Restriction

- First funds distributed during a distribution calendar year are considered RMD
- RMD amounts may not be rolled over
- Proposed RMD regulations expand RMD rollover restriction

IRA-to-IRA Transfers

True or False?

- Transfers are reported to the IRS
- Withholding applies to transfer transactions
- IRS early distribution penalties apply to transfer transactions
- IRA owners may transfer assets as often as they like
- Transfers are viewed as a distribution

IRA-to-IRA Transfers

What IRA Transfers Are Allowed?

- Traditional IRA-to-Traditional IRA
- Roth IRA-to-Roth IRA
- Traditional IRA-to-Roth IRA
- SIMPLE IRA-to-Traditional IRA
- Traditional IRA-to-SIMPLE IRA

IRA-to-IRA Rollovers

True or False?

- IRA-to-IRA rollovers are reported to the IRS
- Withholding applies to IRA rollover transactions
- IRS early distribution penalties apply to IRA rollover transactions
- IRA owners may roll over IRA assets as often as they like
- IRA distributions taken for a rollover are viewed as an early/normal distribution

IRA-to-IRA Rollovers

IRA-to-IRA Rollovers Are Allowed Between...

- Traditional IRA-to-Traditional IRA
- Roth IRA-to-Roth IRA
- Traditional IRA-to-Roth IRA
- SIMPLE IRA-to-Traditional IRA
- Traditional IRA-to-SIMPLE IRA

Questions?

CHAT WITH US OR CALL US AT 888.470.4542

MONDAY–FRIDAY, 8:00 A.M.–5:00 P.M., CT