

Ed Slott's Top 10 IRA Rollover Mistakes

#1 IRA-to-IRA Rollovers and Roth IRA-to-Roth IRA Rollovers

Mistakes:

- ➔ Using 60-day IRA rollovers instead of using transfers to move IRA funds
- ➔ New stricter IRA rollover rules (effective January 1, 2015)
- ➔ Once-per-year is for all IRAs and Roth IRAs
- ➔ IRS has no authority to correct these mistakes
- ➔ New client rollover mistakes - not asking about prior rollovers
- ➔ Not knowing the exceptions to the once-per-year IRA rollover rule

#2 Non-Spouse Rollovers are NOT Permitted

Mistakes:

- ➔ Non-spouse beneficiary cannot do a rollover
- ➔ Taking a lump-sum distribution
- ➔ Putting a decedent's IRA funds into your own IRA
- ➔ Paying out the entire IRA to a trust beneficiary

#3 Spousal Rollovers

Mistakes:

- ➔ Spousal rollover before age 59½
- ➔ Forgetting to do the spousal rollover at age 59½
- ➔ Not naming a successor beneficiary of the inherited IRA

#4 401(k) Rollovers to IRAs

Mistakes:

- ➔ Not reviewing all 6 options (IRA rollover is not the only option.)
- ➔ Receiving a distribution personally and being subject to 20% withholding

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- ➔ Not knowing the credit protection of IRAs in your state
- ➔ Not first asking about the NUA (net unrealized appreciation) tax break
- ➔ Rolling over highly appreciated company stock to an IRA
- ➔ Not allocating the after-tax portion (basis) to a Roth IRA tax free
- ➔ Doing an in-plan conversion before estimating the tax effect

#5 After-Tax Rollovers From Plans to IRAs and Roth IRAs

Mistakes:

- ➔ Not being aware of the new allocation rules that allow the tax-free Roth conversion of after-tax plan funds
- ➔ Failing to allocate pre-tax and after-tax amounts to the correct account
- ➔ Taking only after-tax funds out for tax-free Roth conversions (generally won't work)
- ➔ Rolling over all funds to a Traditional IRA (rules do not apply to IRA distributions)
- ➔ Choosing to receive all funds personally

#6 Roth Conversions (Technically IRA-to-Roth Rollovers)

Mistakes:

- ➔ Not advising on the income impact of a Roth conversions (other taxes may be triggered or tax benefits lost)
- ➔ Failing to keep track of October 15 recharacterization deadline
- ➔ RMDs (required minimum distributions) cannot be converted
- ➔ Rolling over all funds to a Traditional IRA (rules do not apply to IRA distributions)
- ➔ Choosing to receive all funds personally
- ➔ SIMPLE IRA cannot be converted until after 2 years
- ➔ Inherited IRAs cannot be converted, but inherited company plan funds can
- ➔ Not opting out of the 10% IRA tax withholding (You lose the recharacterization of funds not converted.)
- ➔ Failing to notify a CPA about a recharacterization (That recharacterization can occur in the next tax year.)

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[#7] In-Plan Roth Rollovers (401(k) to Roth 401(k) Conversions)

Mistakes:

- ➔ Not asking if in-plan conversions are available in the plan
- ➔ Not estimating the taxes due on the conversion
- ➔ Not knowing that the in-plan conversion CANNOT be recharacterized
- ➔ Not checking first if a Roth IRA conversion is available

[#8] Rollovers to Any Other Retirement Account (60-Day Rule)

Mistakes:

- ➔ Losing track of the 60-day deadline
- ➔ Not knowing about the 20% mandatory withholding from plans
- ➔ Not knowing about the new self-certification procedures for late rollovers
- ➔ Depositing the funds into a non-IRA account
- ➔ Choosing a 60-day rollover instead of a transfer

[#9] QDRO Rollovers in Divorce (From Plans Only) to Ex-Spouse as Alternate Payee

Mistakes:

- ➔ Rolling over all of a QDRO (qualified domestic relations order) distribution to an IRA and then taking an IRA distribution before age 59 1/2
- ➔ Remember! A QDRO distribution is a 10% penalty exception, but only on distributions from the plans!
- ➔ Not knowing that an IRA rollover voids the 10% penalty exception
- ➔ Not knowing that QDROs do not apply to IRAs

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[#10] Rollovers From IRAs Back to Plans

Mistakes:

- ➔ Rolling over basis into the company plan
- ➔ The pro-rata rule exception
- ➔ Only pre-tax funds can be rolled to the plan
- ➔ Failing to convert remaining IRA basis to a Roth IRA
- ➔ Not asking if your plan accepts IRA rollovers
- ➔ Not first checking plan restrictions on accessing funds (Funds are now subject to plan rules.)

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