THE WHITE PAPER

Your Retirement Planning Newsletter

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How Will the One-Per-Year IRA Rollover Rule Apply in 2015?

Early this year the U.S. Tax Court ruled that the "one-per-year" IRA rollover rule applies to all of an individual's IRAs, in aggregate, not to each separately. The IRS has backed the court's decision and offered guidance as to how the new rule will affect rollovers completed in 2014 as well as new rollovers initiated in 2015.

Timing and Transition

The IRS's latest announcement clarifies that the once-a-year rule will take effect on January 1, 2015, putting to rest any uncertainty that investors and advisors may have had regarding the status of rollovers made in 2014. In a news brief, the IRS stated that "a distribution from an IRA received during 2014 and properly rolled over (normally within 60 days) to another IRA will have no impact on any distributions and rollovers during 2015 involving any other IRAs owned by the same individual."[1] The key here is that new rollovers initiated in 2015 must involve different IRAs than those included in rollover activity in 2014.

The IRS statement went on to explain that, "Although an eligible IRA distribution received on or after January 1, 2015, and properly rolled over to another IRA will still get tax-free treatment, subsequent distributions from any of an individual's IRAs -- including both traditional and Roth IRAs -- received within one year after that distribution will not get tax-free rollover treatment."[1]

This statement further clarifies the point that the rule applies to all of an individual's IRAs -- whether traditional or Roth -- in aggregate, not separately as some may have previously assumed.

Exceptions to the Rule

It should be noted that the rule applies only to indirect IRA rollovers, in which the account holder initiates a distribution from an IRA and receives a check for the distributed amount, which is deposited into his or her personal account. It is then up to the individual to redeposit the funds into the new IRA within the allotted 60-day period to avoid possible taxation and penalties on the amount distributed.

If individuals want to move money more frequently, they can still use the direct rollover approach -- also known as a trustee-to-trustee rollover -- anytime without regard for the new once-per-year rule. With a direct rollover, the money goes directly from the former IRA custodian/trustee to the new custodian without the account holder ever touching it. The Tax Court was clear in its ruling that individuals who have more than one IRA may make multiple direct rollovers from the trustee of one IRA to the trustee of another IRA without triggering the one-year limit. Other advantages of a direct rollover include simplicity and continued tax deferral on the full amount of the account holder's retirement savings.

Also excluded from the new rule are Roth IRA conversions (rollovers from traditional IRAs to Roth IRAs) as well as rollovers between qualified retirement plans and IRAs.

These latest developments may have an impact on individual investors' retirement planning decisions. To play it safe, consult with a qualified financial and/or tax advisor before making any IRA moves. For their part, advisors should exercise caution in managing clients' rollover activity, being careful to question the rollover history of a given IRA.

[1]*Internal Revenue Service, "IRS Clarifies Application of One-Year Limit on IRA Rollovers, Allows Owners of Multiple IRAs a Fresh Start in 2015," November 10, 2014.*