

ROLLING OVER A 2020 DISTRIBUTION IN 2021

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The rules for rolling over IRA distributions can be complicated at any time of the year. They are especially challenging at the end of the calendar year.

Surprisingly, sometimes IRA owners have doubts as to whether a distribution taken in one calendar year can even be rolled over in the next. There is no problem with this! Nothing prevents you from taking an IRA distribution in December, 2020 and rolling it over in January, 2021, *as long as you follow all the usual rollover rules that always apply.*

Reporting the Rollover

Another concern you may have is how to handle a distribution from your IRA in 2020 that you roll over in 2021 on your tax return. *Do you report this transaction on your 2020 tax return or wait for 2021?*

Here is how it works:

- The custodian paying out the IRA will report the distribution on a 2020 Form 1099-R.
- The rollover will be reported by the receiving IRA custodian on a 2021 Form 5498.
- You will report the distribution and the rollover on your 2020 federal income tax return.

Once-Per-Year Rollover Rule

Don't fall for a common misunderstanding of the one-rollover-per-year rule. The rule says that you may only roll over one distribution from all of your IRAs in a one-year period. The one rollover per year does not apply on a calendar year basis. It begins with the date you receive the distribution you later roll over. A new calendar year does not get you a clean slate. If you take an IRA distribution on December 15, 2020 and roll it over in January, 2021, you may not roll over another IRA distribution that you receive before December 16, 2021.

2021 RMD Concerns

RMDs were waived for 2020, but they are back for 2021. A rollover that is outstanding at the end of the year can affect your 2021 RMD. If you take a distribution in 2020 and complete a rollover of those funds in 2021, you must include the amount rolled over in your December 31, 2020 fair market value when calculating your 2021 RMD. This rule prevents IRA owners from avoiding RMDs by having an IRA balance of zero on December 31. You cannot escape your RMD by emptying out your IRA in December and then rolling over the funds in January.

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