HOW THE ONCE-PER-YEAR ROLLOVER RULE IS MISUNDERSTOOD

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One of the cardinal sins you can commit with an IRA rollover is to run afoul of the IRS "once-per-year" rollover rule. Violating that rule triggers a taxable distribution and the 10% early distribution penalty if you are under age 59 ½. Plus, the forbidden rollover would be treated as an excess contribution subject to an annual 6% penalty unless timely corrected. Unlike missing the 60-day rollover deadline, violating the once-per-year rule is a mistake that cannot be fixed.

But the once-per-year rule is often misunderstood.

As background, remember that the once-per-year rule only applies to traditional IRA-to-traditional IRA rollovers or Roth IRA-to-Roth IRA rollovers. The rule *does not* apply to company plan-to-IRA rollovers, IRA-to-company plan rollovers, or traditional IRA-to-Roth IRA rollovers (Roth conversions). Since 2015, the IRS has said that the once-per-year rule applies to *all* of a person's IRAs – not to each IRA account separately. Traditional and Roth IRAs are combined when applying the rule. You can always get around the once-per-year rule by doing a direct transfer instead of a 60-day rollover.

Often, the once-per-year rule is expressed as disallowing more than one rollover in a one-year period. But that's not how the rule really works. The rule actually says you can't do a rollover of an IRA distribution made within one year of a prior distribution that was rolled over. So, the rule prevents you from doing more than one rollover of *distributions* made within a one-year period; it doesn't necessarily prevent you from doing more than one *rollover* within a one-year period.

Example 1: Jackie received a traditional IRA distribution on November 1, 2020 that she rolled over to another traditional IRA on December 1, 2020. If Jackie receives a second traditional IRA (or Roth IRA) any time before November 1, 2021, the once-per-year rule prevents her from doing another 60-day rollover of that second distribution to another like IRA.

Example 2: Let's say Jackie receives the second distribution on October 15, 2021 (within one year of the first distribution on November 1, 2020). She would still violate the rule even if she delays rolling over the second distribution until December 2, 2021 (more than one year after the first rollover on December 1, 2020).

Example 3: Now assume that Jackie receives the second distribution on November 10, 2021 (more than one year after the first distribution on November 1, 2020). She would not violate the once-per-year rule if she rolls over the second distribution on November 25, 2021 (within one year of the first rollover on December 1, 2020). In that case, doing two rollovers within a one-year period (on December 1, 2020 and November 25, 2021) is allowed.