ONE IRA ROLLOVER PER YEAR - BASED ON DISTRIBUTIONS

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By Andy Ives, CFP®, AIF®
IRA Analyst
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A person is allowed only one IRA-to-IRA or Roth-IRA-to-Roth-IRA 60-day rollover per year. This 12-month period is a full 12 months – it is not a calendar year. Accordingly, we refer to this as the "once-per-year rule." For example, if a person received an IRA distribution in March that is subsequently rolled over, he is not eligible to initiate another 60-day IRA or Roth IRA rollover with a distribution received before the following March. The 12 months begin with the date the funds are received by the account owner. (Day of receipt is an important distinction. This could buy a person a couple of days when the 60-day deadline is approaching and a check was originally mailed to the IRA owner.)

It is also important to note that the one-rollover-per-year rule is based on the number of distributions from the IRA, not the number of deposits. For example, Eddie owns an IRA. He has not done any 60-day rollovers with a distribution taken in the previous 12 months. Eddie takes a single withdrawal from his IRA in the amount of $250,000. The check is made payable to Eddie, and Eddie deposits the check into his checking account. This is perfectly acceptable, and Eddie has 60 days from the time he received the check to complete a rollover.

Before the 60 days expires, Eddie elects to roll all $250,000 back into an IRA. However, Eddie wants to split the $250,000 into five equal parts of $50,000. He chooses five different banks and custodians where he has five different IRAs. Eddie rolls $50,000 into each of the five IRAs. Is this allowed?

Yes! The one-rollover-per year rule is based on the number of distributions, not the number of deposits. Eddie had only one IRA distribution. The fact that he split the money into five different IRAs is not an issue. However, the opposite is not permitted.

After 12 months, Eddie is once again able to complete a 60-day rollover as his one-rollover-per-year time restriction has been reset. He still has the five separate IRAs - all still valued at $50,000 each - but does not like the hassle of maintaining multiple IRAs or the investment performance. Eddie requests a check from each of the IRAs be sent directly to him. His plan is to consolidate the five checks into his checking account, and then within 60 days write a single check for the full amount to another IRA as a rollover. Is this allowed?

It is not. As mentioned, the one-rollover-per-year rule is based on distributions, and Eddie's plan will create five separate distributions. Consolidating the five distributions into a single check from his checking account will not work. If Eddie proceeds to take five $50,000 distributions, he is only permitted to roll over one of them. He will be stuck with a $200,000 taxable distribution on the remaining dollars, and there is no fix. Eddie could roll over all or a portion of the $200,000 into a Roth IRA within 60 days – that would qualify as a valid Roth conversion, and Roth conversions are not subject to the once-per-year rule. However, the taxes would still be due.

Be careful with 60-day rollovers. Understand the rules or, better yet, avoid rollover problems altogether by doing direct transfers. Like Roth conversions, IRA owners can do an unlimited number of direct transfers in a year.