

# ONE ROTH IRA BUCKET

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**SCENARIO:** John owns multiple Roth IRAs. He believes it is necessary to maintain all these accounts to keep things properly organized and to track his 5-year conversion clocks. He has contributed to Roth IRA #1 for over a decade. He did a partial Roth conversion from a traditional IRA many years ago (to Roth IRA #2). Since that first conversion, John did two more conversions. These are Roth IRAs #3 and #4. Finally, John recently rolled over his 401(k) plan. The pre-tax dollars went into another traditional IRA (Traditional IRA #2), and the Roth 401(k) dollars went to Roth IRA #5. A summary of John's IRA accounts looks like this:

- Traditional IRA #1 – Used to make partial Roth conversions
- Traditional IRA #2 – Includes only pre-tax rollover dollars from John's 401(k)
- Roth IRA #1 – Contributions and earnings
- Roth IRA #2 – Created by the first traditional-to-Roth IRA conversion
- Roth IRA #3 – Created by the second traditional-to-Roth IRA conversion
- Roth IRA #4 – Created by the third traditional-to-Roth IRA conversion
- Roth IRA #5 – Rollover Roth dollars from the 401(k)

What does the IRS see when it looks at all of John's IRA accounts?

- 1 bucket of Traditional IRA dollars
- 1 bucket of Roth IRA dollars

But how does the IRS keep things straight? How do they know what is Roth contributions, what is conversions, and what is earnings? Tax forms. Form 1099-R and 5498 tell all. Through these tax forms, the IRS knows what went down, which

means they know what's up.

If John takes a distribution from ANY of his Roth IRAs, what will that distribution consist of? Based on strict ordering rules, the first dollars out will be contributions, then conversions, then earnings. Even if John does another conversion today (generating Roth IRA #6) and then takes a small distribution from that same account tomorrow, it will be considered a withdrawal of contributions.

But how is that possible? Once again, the IRS does not care how many Roth IRAs you maintain. They see only one bucket of Roth IRA dollars under your name, and that bucket is clearly separated into contributions, conversions, and earnings.

Assume John contributed a total of \$50,000 to Roth IRA #1 over many years. This means that every year the custodian would generate a 5498 and report to the IRS in Box 10 – “Roth IRA Contributions.” The IRS adds up all those 5498's and, logically, anything above \$50,000 is earnings. What if John then did a total of \$200,000 in Roth conversion? Those conversions would also be reported on a 5498, Box 3 – “Roth IRA conversion amount.” Additionally, each annual 5498 is essentially time stamped to track the 5-year clocks. Now, all within the same bucket of Roth IRA dollars, the IRS sees \$50,000 of Roth contributions, \$200,000 of Roth conversions, and when those transactions were completed. Anything above that is earnings.

One Roth IRA bucket. Clearly defined. Strict ordering rules. No need to maintain separate Roth IRA accounts like John if you don't want to. The IRS sees all.

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