

THE ONCE-PER-YEAR ROLLOVER RULE: MULTIPLE DEPOSITS VS. MULTIPLE DISTRIBUTIONS

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*By Sarah Brenner, JD
Director of Retirement Education*

The once-per-year IRA rollover rule sounds easy. However, there are many ways to go wrong. One common confusion with this rule occurs when there are multiple distributions or multiple deposits. These two circumstances have very different outcomes.

How the Once-Per-Year Rollover Rule Works

The once-per-year rollover rule says that an IRA owner cannot roll over an IRA distribution that is received within a 365-day period of a prior distribution that was rolled over. Traditional and Roth IRAs are combined for purposes of the once-per-year rule. So, for example, a distribution and subsequent rollover between your Roth IRAs will prevent another rollover of a distribution from your traditional IRA received within one year of the Roth IRA distribution. The bottom line is that an IRA-to-IRA (or Roth IRA-to-Roth IRA) 60-day rollover may not be done if you received a prior distribution within the last year (365 days) that you also rolled over.

The once-per-year rollover rule does NOT apply to rollovers between plans and IRAs or Roth IRA conversions.

One Distribution and Multiple Rollover Deposits

If an IRA owner takes a distribution, she may split the funds and roll them over to multiple IRAs. This could be done on different days and that would not be a problem. Multiple rollover deposits are acceptable for purposes of the once-per-year rollover rule because only one distribution is received even though there is more than one rollover deposit.

Example: Sophie receives a \$100,000 distribution from her IRA on June 15. On June 20, Sophie rolls over \$75,000 to an IRA. On June 25, she decides to roll over the remaining \$25,000 to another IRA. This is not a violation of the once-per-year rollover rule because Sophie received only one distribution. Even though she did two deposits on two different dates to complete her rollover transaction, there are no issues with these transactions.

Multiple Distributions and One Rollover Deposit

If an IRA owner is permitted to take a distribution on one day and roll it over on multiple

different days, is the opposite scenario also allowed? Can an IRA owner take multiple distributions on different days and deposit them at one time as one consolidated rollover? The answer is no. Even if all the distributions were taken from the same IRA, this is still not allowed. The reason is that only one distribution is eligible for rollover within a 60-day period.

Example: James takes a \$2,000 distribution from his IRA on January 10 and another \$30,000 distribution on January 12. His plan is to roll over both distributions on the same day to a new IRA. Unfortunately for James, only one of his IRA distributions is eligible for rollover. This is because the once-per-year rule limits him to rolling over only one distribution within a 365-day period.

Do Direct Transfers Between Your IRAs

Confusion about the impact of multiple deposits or distributions and the once-per-year rollover rule is just one of many reasons why 60-day rollovers should be avoided. If there is no 60-day rollover, then there is no once-per-year rollover rule to worry about. How, then, can you move your retirement funds? The best advice is to directly transfer the funds from one retirement account to another rather than taking a distribution payable to yourself and then rolling it over to another retirement account. You can do as many direct transfers between IRAs annually as you want.

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