IRA Masterclass
Session 1: Rollovers, Transfers, Roth conversions

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Host: Financial Experts Network

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Denise is the author of: **The IRA Quick Reference Guide: A Compilation of IRA Quick Reference Guides** **and creator of** **www.irapublications.com**

Denise is an author, consultant, trainer, and speaker on the tax laws and operations compliance that govern IRAs and employer sponsored retirement plans.

Denise's consulting practice focuses on protecting retirement savings accounts from costly mistakes.

Denise works with advisors to help ensure that their clients avoid these mistakes, by simplifying the tax code and other governing rules and regulations. When possible, Denise helps to correct mistakes that have already been made and have helped individuals save from a few hundred to millions of dollars by avoiding and/or correcting mistakes.

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This information is for general information purposes only and is not intended to be used as tax or legal advice. You may need additional material to answer some questions related to the course topic.

For legal and compliance reasons, we are unable to answer questions about specific cases, unless we are separately retained for such a consultation.

Learning Objectives

At the end of the session, participants should be able to:

- Understanding The difference between transfers and rollover and the limitations that apply
- Identify the rules and best practices for executing rollovers
- Explain the procedures for Roth IRA conversions and tax considerations
- Provide a high-level explanation of the rollover rules for beneficiaries

Primary Lessons

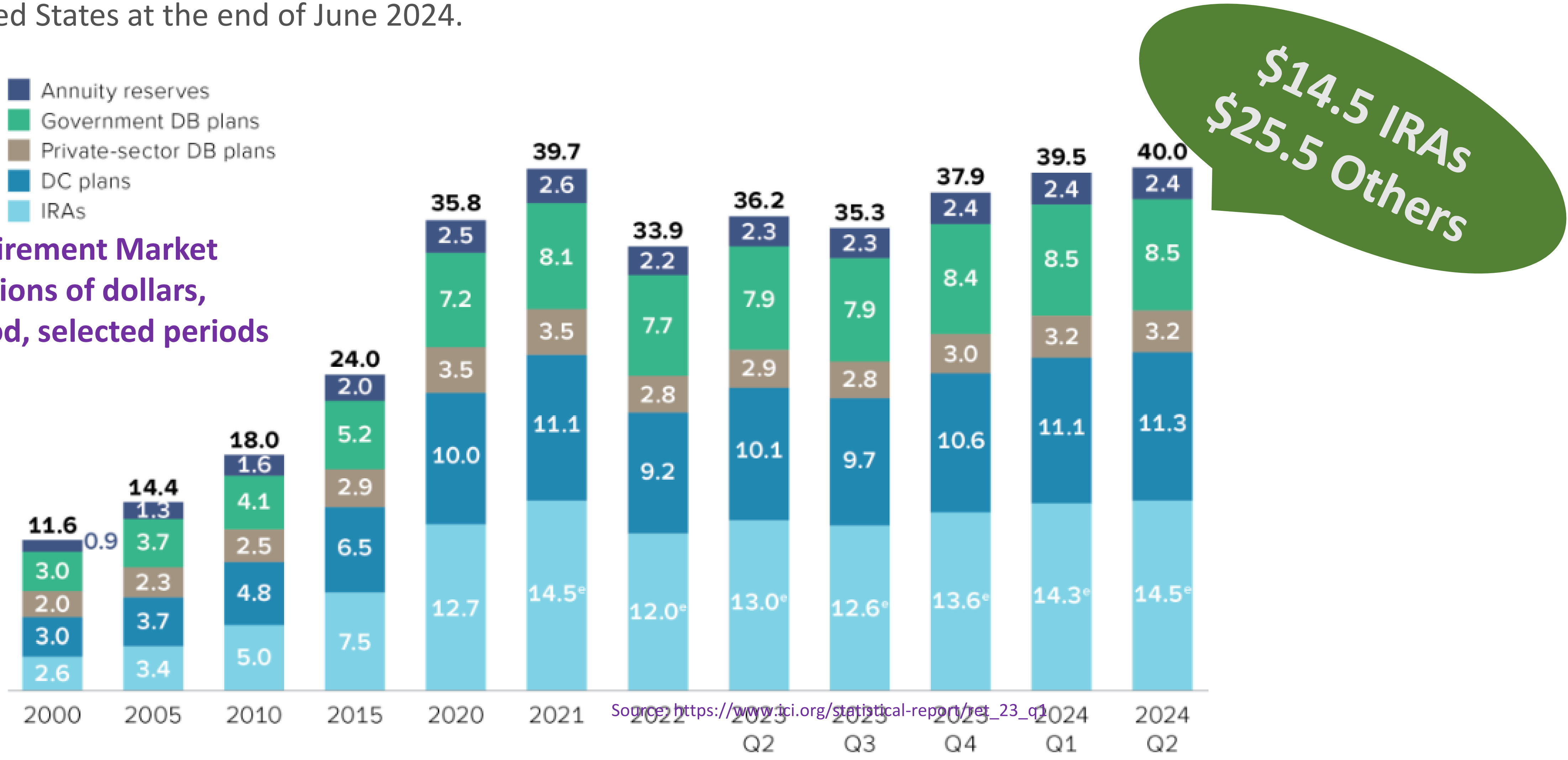
- When it comes to protecting retirement savings amounts, the focus is usually on investment strategies.
- A wrong asset movement can wipe out years of market growth.
- All the estate and tax planning might be for naught if a wrong move is made by an owner or beneficiary.
- Educate your clients on how the right moves are essential to the success of distribution and estate planning.

Retirement Assets Total $40 Trillion in Second Quarter 2024

Retirement Assets Total $40.0 Trillion in Second Quarter 2024

Washington, DC; September 19, 2024—Total US retirement assets were $40.0 trillion as of June 30, 2024, up 1.3 percent from March. Retirement assets accounted for 32 percent of all household financial assets in the United States at the end of June 2024.

US Total Retirement Market Assets | Trillions of dollars, end-of-period, selected periods



Source: https://www.ici.org/statistical-report/ret_23_q1

Rollovers Fuel IRAs

- 60 percent of traditional IRA–owning households IRAs **contained rollovers** from employer-sponsored retirement plans.

Holden, Sarah, and Daniel Schrass. 2023. "The Role of IRAs in US Households' Saving for Retirement, 2022." ICI Research Perspective 29, no. 01 (February). Available at www.ici.org/files/2023/per29-01.pdf

"While 401(k)s plans have spread dramatically, they have essentially turned into a collection mechanism for retirement savings; **participants eventually roll over the bulk of the money into IRAs**."

"401(K)/IRA Holdings in 2019: An Update From the SCF" (Center for Retirement Research at Boston College, 2020), https://crr.bc.edu/wp-content/uploads/2020/10/IB_20-14.pdf.

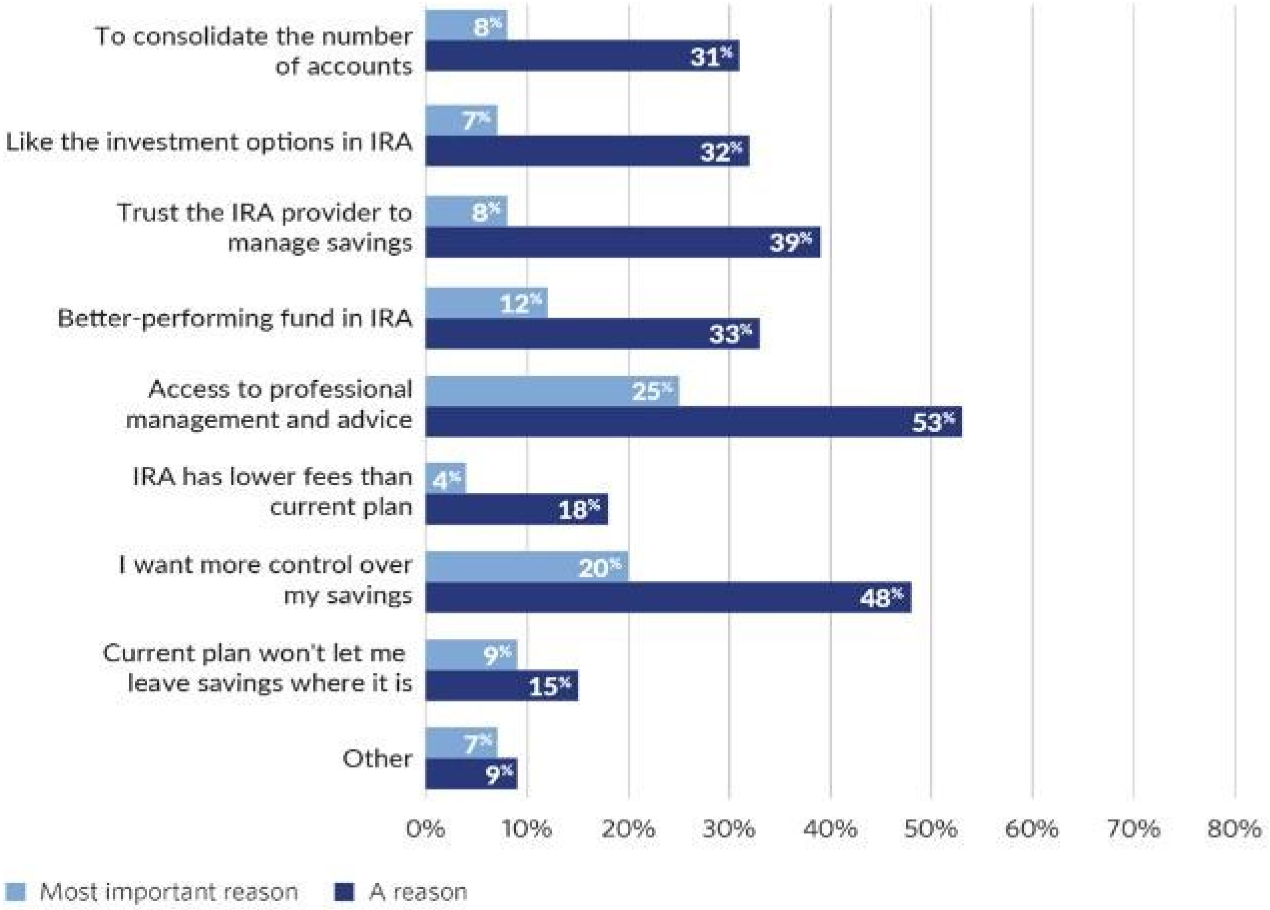
Among households with rollovers in their traditional IRAs, **81 percent indicated that they had rolled over the <u>entire</u> retirement account balance** in their most recent rollover

Holden, Sarah, and Daniel Schrass. 2023. “The Role of IRAs in US Households’ Saving for Retirement, 2022.” ICI Research Perspective 29, no. 01 (February). Available at www.ici.org/files/2023/per29-01.pdf

Figure 7

Reasons Retirees Rolled Over Their Savings Into IRAs

Access to advice and control over their savings ranked high, while fees were less of a consideration



Notes: Because of rounding, "Most important reason" may not sum to 100%. Respondents could select multiple reasons, therefore "A reason" exceeds 100%. Analysis based on a sample of 242 survey participants.

Source: The Pew Charitable Trusts Survey of Near and Recent Retirees

- **53% rolled over to IRA to get access to professional advisors**

"Pew Survey Explores Consumer Trend to Roll over Workplace Savings into Ira Plans." *The Pew Charitable Trusts*,.

Be careful with rollovers

As rollovers are handled for clients, care must be taken to ensure that they are done correctly

Right IRA Moves = Happy Clients

Wrong IRA Moves = Angry Clients

The Cost of ‘Wrong Moves’

- Erosion of years of savings and growth
- Loss of tax-deferred status
- Double taxation
- Excise tax
- Early distribution penalty
- Voiding life expectancy option

What’s Wrong? What’s Right?

It Starts with the Basics

Using the right terminology when it matters

- Rollovers vs. Transfers
- Direct Rollovers vs. Indirect Rollovers
- Rollovers vs. Roth IRA conversions

•Describe the tax impacts of rollovers from employer plans to Roth IRAs

Learning Objective

Understanding The difference between transfers and rollover and the limitations that apply

Step 1: Make Sure Movement Type is Allowed

Is Movement Permitted from Delivering to Receiving Plans/Accounts?									
		Receiving Plans							
		Traditional /SEP IRA	Roth IRA	SIMPLE IRA	Qualified Plan	Roth 401(k)/ Roth 403(b)/ Roth 457(b)	403(b)/ 457(b) [1]	ESA	529 Plan
Delivering Plans	Traditional /SEP IRA	Yes	Yes[2]	Yes[3]	Yes[4]	No	Yes [4]	No	No
	Roth IRA[5]	No	Yes	No	No	No	No	No	No
	SIMPLE IRA[6]	Yes	Yes[2]	Yes	Yes[4]	No	Yes [4]	No	No
	Qualified[7] Plan	Yes	Yes[8]	Yes[3]	Yes	Yes[9]	Yes	No	No
	Roth 401(k)/ Roth 403(b)/ Roth 457(b)	No	Yes	No	No	Yes	No	No	No
	403(b)/ 457(b)	Yes	Yes[8]	Yes[3]	Yes[10]	Yes [9]	Yes	No	No
	ESA	No	No	No	No	No	No	Yes	Yes
	529 Plan	No	Yes[11]	No	No	No	No	No	Yes

Transfer and Rollover Rules for IRAs

The Goal of Portability

- To retain tax deferred status while changing service provider or advisor

Talk The Walk: A Must for IRA Portability

When it comes to rollovers and transfers:

- Say what you mean
- Mean what you say
- Saying ‘rollover’ when it should be ‘transfer’ could cause unintended distributions

Transfers: IRA to IRA

- Movement of assets directly between IRA Custodians
- Never paid to IRA owner
- Can be done for an unlimited number of times, during any period
- Nonreportable
  - No 1099-R
  - No 5498

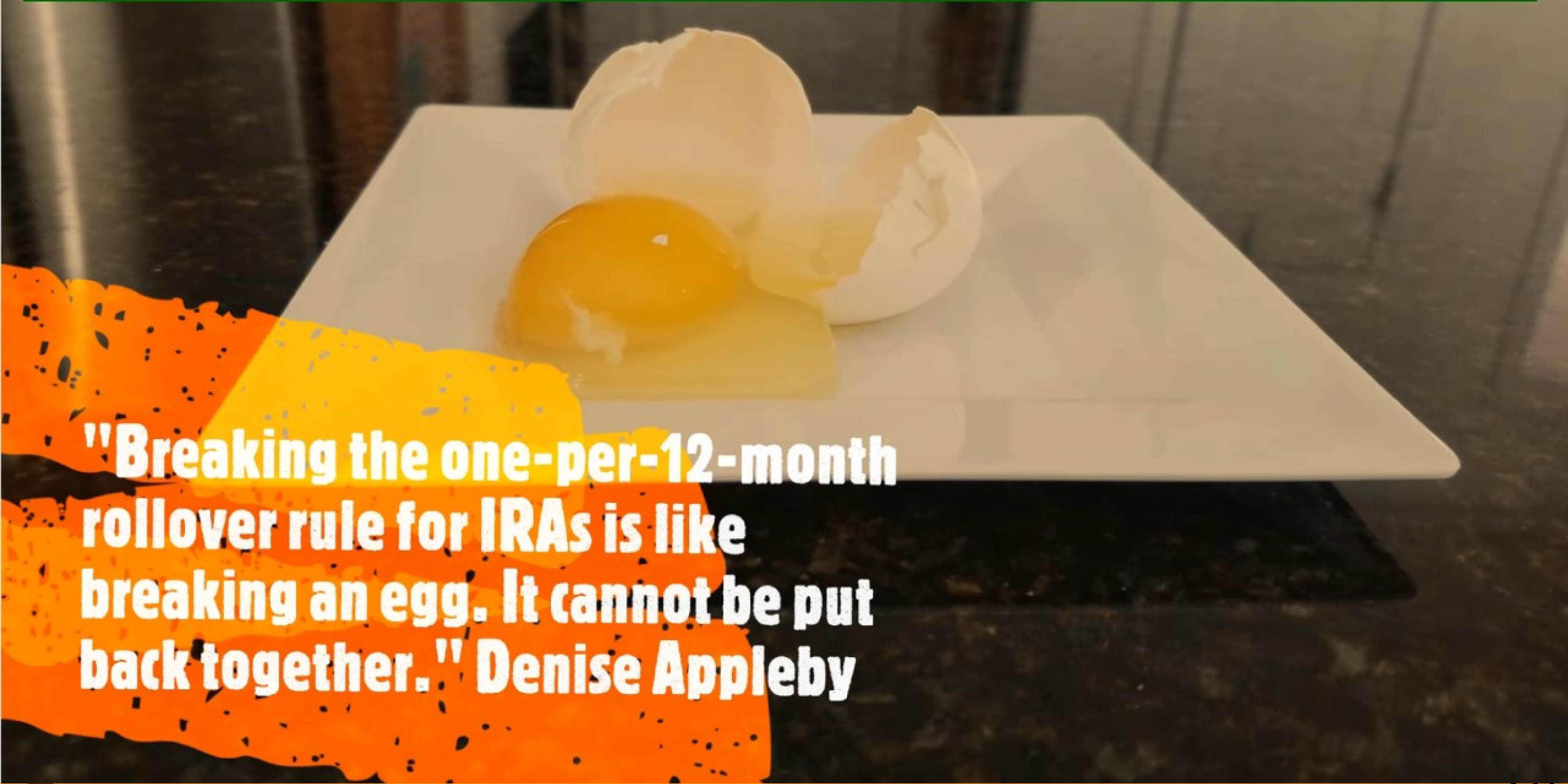
Rollovers: IRA-to-IRA

- Reportable movement of assets
- Can be done only once during a 12-month period
- Part 1: Distribution:
  - 1099-R is issued
  - Tax withholding applies
- Part 2: Rollover contribution:
  - 5498 is issued
  - 60-day deadline

SIMPLE IRA 2-Year Exception

- Assets cannot be transferred or rolled over between a SIMPLE IRA and a non-SIMPLE IRA before the 2-year period
- The 2-year period starts when the first contribution is made to the SIMPLE IRA

Use Transfers To Avoid Breaking the One-Per-12-Month Rule



The One-Per-12-Month Rollover Rule

- Rule: Only one IRA-to-IRA 60-day rollover may be performed by an individual during a 12-month period

Real Life Case!

Tax Court Case: One-Per-12-Month Rollover Limitation

Bobrow v. Commissioner, T.C. Memo 2014-21

- Taxpayer performed two IRA-to-IRA rollover
- IRS disallowed second rollover
- Tax Court agrees with IRS- only one IRA to IRA rollover per year
- IRS Publication 590 contradicts tax code
- IRS Publication is not binding precedent, **"taxpayers rely on IRS guidance at their own peril".**

Tax Court Case: One-Per-12-Month Rollover Limitation

Bobrow, T.C.M. 2014-21

- The limitation applies on an aggregate basis
- IRS published guidance is not binding precedent
- Publication 590 would not have served as substantial authority
- Loss of tax deferred status of amount
- 6% excise tax for every year amount remained in IRA (statute of limitation applies)
- Deficiency in income tax for taxable year
- An accuracy-related penalty under §6662

Real Life Case!

Advisor Misadvised = Rollover Disqualified

- IRA owner wanted to consolidate four IRAs with her financial advisor, Tom.
- Tom wanted to expedite asset movement:
- Tom advised IRA owner to:
  - Request distributions from each IRA: all within one week
  - Rollover each distribution within 60-days or receipt.
- Goal: Continued tax deferral of all IRAs
- Result: Only one rollover was allowed

What Went Wrong?

- Too many IRA-to-IRA rollovers

How to Avoid the One-Per-12-Month Rollover Limitation

- Encourage clients to use trustee-to-trustee transfer when moving assets between IRAs
- Initiate transfers on the receiving end

•Describe the tax impacts of rollovers from employer plans to Roth IRAs

Learning Objective

The Rules and Best Practices for Executing Rollovers

Tax Considerations & Pitfalls for Rollovers

- Rollovers are nontaxable, **providing** the amount is rollover-eligible
- Rollovers could result in loss of exception to 10% additional tax

More on Rollovers: IRA-to-IRA

- Same assets must be rolled over

Exception to one per rule .

- A “distribution made from a failed financial institution by the Federal Deposit Insurance Corporation as receiver is not treated as a rollover for purposes of the one-rollover-per-year limitation, provided:
  1. Neither the failed financial institution nor the depositor initiated the distribution, and
  2. No financial institution has assumed the IRAs of the failed financial institution.” Pub 590-A

Terminologies Matter: What is Distribution?

- Assets that leave an account via any means
    - other than a transfer between identical account type.
- It is still distribution if rolled over.

Rollovers from Employer Plan Requires Triggering Event

Participant must have a triggering event in order to rollover assets from qualified plans and 403(b)s . Examples:

- Termination of employment
- Reaching retirement age, as defined under plan
- Termination of plan
- Death (rollover by beneficiary)
- Disability
- Non-hardship in-service

Rollovers: Employer Plans: Slide 1 of 2

- Reportable movement of assets
- No limit on frequency even if IRA is involved
- Part 1: Distribution:
  - 1099-R is issued
  - Indirect Rollover:
    - ✓Tax withholding applies. 20% if from employer plan
    - ✓60-day deadline
  - Direct Rollover: No tax withholding. No 60-day deadline

Rollovers: Employer Plans: Slide 2 of 2

- Part 2: Rollover contribution:
  - 5498 is issued for IRAs on receiving end. None for employer plans

Rollover Options After Withholding

Options include:

- Rollover net
- Make up withholding out of pocket

Example

John requested $100,000 from 401(k) plan , paid to him. Administrator withheld 20%. John received $80,000.

John can rollover $80,000, or make up $20,000 out of pocket and rollover $100,000

$20,000 is credited towards withholding for the year

$20,000 treated as regular distribution if not rolled over

Rollbacks-No Triggering Event Required

- Rollovers to plan can be withdrawn before triggering event, if plan separately accounts for such rollovers
- IRA rollovers to Plan subject to plan's RMD and early distribution penalty rules

Losing Tax Deferred Status by Missing the 60-Day Rollover Deadline

Key 60-Day Rollover Rules

- The 60-day period begins when the account owner receives the distribution.
- If the deadline is not met, the distribution is includible in income the year the funds leave the account

Automatic Waiver of 60-Day Deadline

Automatic Waiver applies if:

- The amount was not rolled over within the 60-day rollover period solely because of an error on the part of the financial institution
- The funds are deposited into a plan or IRA within 1 year from the beginning of the 60-day rollover period
- It would have been a valid rollover if the financial institution had deposited the funds as instructed

Self Certification for 60-Day Waiver

Self-Certification

- Written self-certification from IRA owner (Sample in Rev. Proc. 2020-46)
- Meets conditions for self-certification
  - No prior denial by the IRS
  - Meets safe harbor reason for missing 60-day deadline (Full list in handout Rev. Proc. 2020-46)
  - Contribution as soon as practicable; 30-day safe harbor

IRS PLR for 60-Day Waiver

IRS PLR (Example: IRS fee of $12,500 in 2024) plus professional fees

- Sections 402(c)(3)(B) and 408(d)(3)(I) provide that the Secretary may waive the 60-day rollover requirement :

  > "where the failure to waive such requirement would be against equity or good conscience, including casualty, disaster, or other events beyond the reasonable control of the individual subject to such requirement."

- No guarantee of approval

Rolled Over RMD (ineligible rollover amount)

Examples of Ineligible Rollovers

- Required minimum distributions
- Hardship distributions
- Excess contributions
- Rollovers that break the one-per-year IRA-to-IRA rollover rule
- Rollovers that miss the 60-day deadline
- **Employer Plans:** Administrator must inform participants of rollover eligibility of amount

Reminder: SIMPLE IRA 2-Year Exception

- Assets cannot be transferred or rolled over between a SIMPLE IRA and a non-SIMPLE IRA before the 2-year period
- The 2-year period starts when the first contribution is made to the SIMPLE IRA

Reminder

Reminder: SIMPLE IRA 2-Year Exception

Ineligible Rollover Consequences: IRAs

Rollovers of ineligible amounts are treated as regular IRA contributions

- Subject to regular IRA contribution limits
- Creates excess contribution that is more than regular IRA contribution limit
- Must be corrected as return-of-excess if results in excess, or will be subject to 6% excise tax for every year it remains in IRA (6-year statute of limitations apply)

Ineligible Rollover Consequences: Employer Plans

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Ineligible Rollover Consequences

Ineligible rollovers are:

- Includible in income the year of distribution from the plan.
- Excludible from income when distributed from the IRA if corrected by the deadline or was rolled over due to incorrect information provided by the plan

Real Life Case!

Ineligible Rollover Case Study

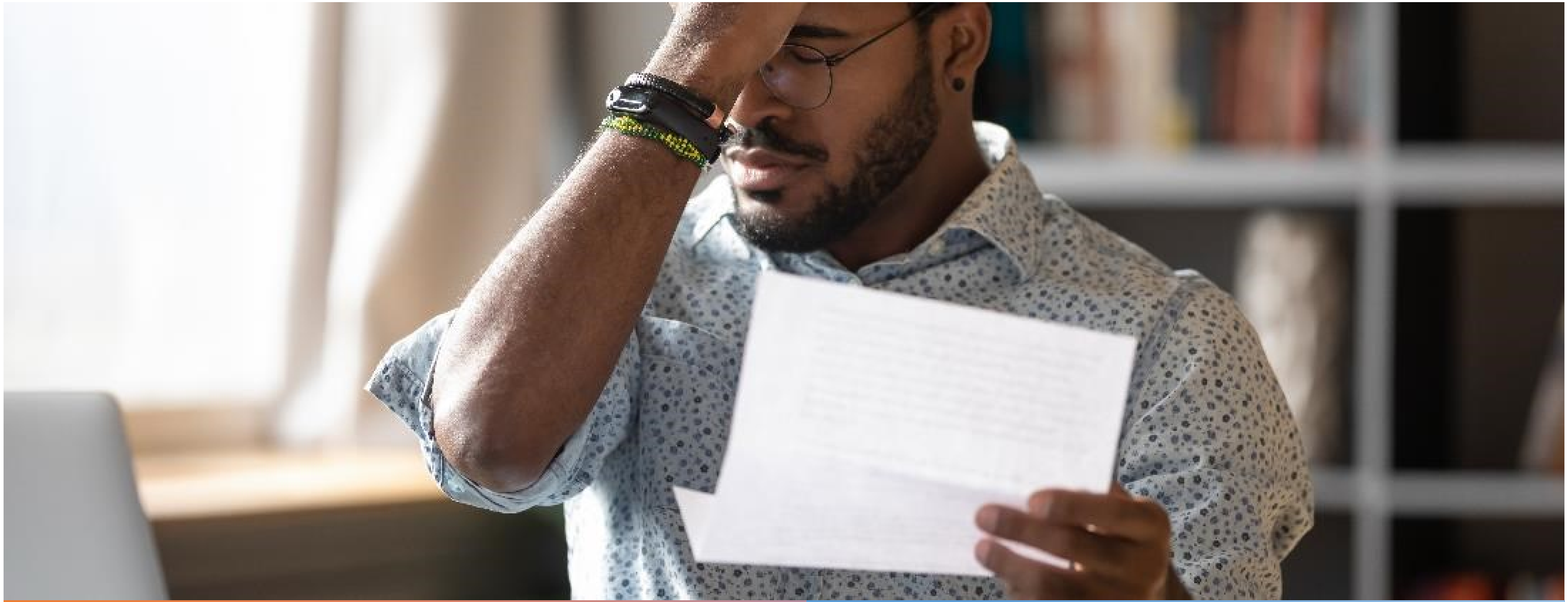
Mary's 60-day rollovers:

- Rolls over $400,000 from R-IRA #1 to R-IRA #2 on March 31.
- Rolls over $500,000 from T-IRA# 1 to T-IRA # 2 on April 30.
  - The second rollover of $500,000 is ineligible
  - No longer eligible to be held in IRA
  - Must be included in income
  - Must be corrected from the IRA as a return of excess by tax filing due date, plus extensions
  - 6% excise tax applies for every year excess not corrected

Rollover to Change Plan Type Can Be Surprisingly Costly

Rollover Considerations: Employer Plan & IRA

- Estate planning limitations
- Creditor protection
- Whether net unrealized appreciation (NUA) tax benefit would be lost
- Whether early distribution penalty/additional tax exception would be lost
- Tax treatment depends on receiving account type (Roth or Traditional)
- After-tax opportunities



CATANIA V. COMM'R, T.C. MEMO. 2021-33 (2021)

Rollover from Qualified Plan to IRA Lost Exception to 10% Early Distribution Penalty

60

Rollover Can Void Exception: P1 of 2

Case:*Catania v. Comm’r, T.C. Memo. 2021-33 (2021)*

John:

- Retired at age 55, and therefore eligible for the age 55 exception for his 401(k)
- Rolled over his 401(k) to his IRA at age 57
- Distributed $57,000 from his IRA

Rollover Can Void Exception: P2 of 2

Case: *Catania v. Comm'r, T.C. Memo. 2021-33 (2021)*

- John:
  - Did not pay the 10% early distribution penalty
  - Disagreed with the IRS that he owed the penalty
- Matter brought before the tax court
- Tax Court agreed with the IRS: Age 55 exception does not apply to IRAs

•Describe the tax impacts of rollovers from employer plans to Roth IRAs

Learning Objective

Rollover Rules for Beneficiaries

How do you move inherited accounts? 

How to Categorize Beneficiaries for Rollovers and Transfers

For Rollover and Transfer Rules

Appleby's IRA Quick Reference Guide for:
2024 Rollover and Transfer Rules for Beneficiaries

Use this guide to determine the types of accounts between which beneficiaries may transfer or rollover inherited accounts.

Rollover and Transfer Rules for Beneficiaries of IRAs and Employer Plan Accounts

Beneficiaries of IRAs and employer sponsored plan accounts/benefits are permitted to move those assets to other tax-deferred accounts under limited circumstances. This guide shows what is allowed. Rollovers may not include RMDs.

Inherited Account Type	Type of Beneficiary Account to which the inherited account may be:					
	Transferred	Transferred	Transferred	Rolled Over [1,2,3,4]	Rolled Over [5]	Rolled Over
Type of Beneficiary	Spouse	Nonspouse[6,7]	Nonperson [8]	Spouse[9]	Nonspouse [10]	Nonperson
Traditional IRA [11]	▪ Traditional IRA	▪ Traditional IRA	▪ Traditional IRA	▪ Traditional IRA ▪ Roth IRA[12] ▪ Qualified plan, 403(b), 457(b)	▪ None	▪ None
Roth IRA	▪ Roth IRA	▪ Roth IRA	▪ Roth IRA	▪ Roth IRA	▪ None	▪ None
Qualified plan[13], 403(b), 457(b): Non-Roth	▪ None	▪ None	▪ None	▪ Traditional IRA ▪ Roth IRA ▪ Qualified plan, 403(b), 457(b): non-Roth ▪ Designated Roth Account	▪ Traditional IRA ▪ Roth IRA	▪ None
Designated Roth 401(k), 403(b), 457(b)	▪ None	▪ None	▪ None	▪ Roth IRA ▪ Designated Roth Account	▪ Roth IRA	▪ None

Appleby's IRA Quick Reference Guides cannot be used as substitution for tax or legal advice and is not intended to be used for the purpose of avoiding tax and/or penalties that may be imposed by the IRS or any other regulatory body. Individuals must consult with their tax advisors for advice. This information must not be construed as tax or legal advice.

Know if they are:

- Spouse
- Nonspouse
- Nonperson

Beneficiary Transfer Rules

IRAs

- Movement from decedent to beneficiary must be a nonreportable transfer
- Beneficiary can transfer from one inherited IRA to another, if both are from same decedent
- Can take RMD from receiving Inherited IRA
- Spouse can transfer to his/her ‘own’ IRA

Qualified Plans

- Transfers not allowed between qualified plans

Beneficiary Rollover Rules: IRAs

- Movement from decedent’s IRA to beneficiary cannot be a rollover. Must be a transfer
  - Exception for spouse, who must complete rollover within 60-days of receipt.

Beneficiary Rollover Rules: Employer Plans

- Can rollover from qualified plan/403(b)/457(b) to inherited Traditional or Roth IRA as direct rollover
  - Must take RMD for year before rollover
  - Cannot rollover to own Traditional or Roth IRA (unless spouse beneficiary)
  - Spouse beneficiary must complete rollover within 60-days of receipt

•Describe the tax impacts of rollovers from employer plans to Roth IRAs

Learning Objective

Roth IRA Conversions and Tax Considerations

Funding a Roth IRA

Roth Intro

- Since becoming available in 1998, Roth accounts have become increasingly popular
- This is primarily because of the opportunity for tax-free distributions; unlike traditional accounts, for which tax-deferred amounts would be taxable when distributed
- Those who want to take advantage of Roth accounts should understand the different ways in which contributions can be made, the different types of contributions, and limitations that apply to such contributions

Source of Funding: Roth IRAs (1 of 2)

Source	Key Rules	Comments
Regular Roth IRA contributions	• Limited regular Roth contribution, plus catch-up • Eligibility subject to MAGI limits	• Made with amounts that have already been taxed • No deductions for contributions
Conversions from traditional, SEP and SIMPLE IRAs	• No limit on amount • Amount must be eligible for rollover	• Any pre-tax amount is included in income for the year of the conversion • Tax withholding is not considered part of a conversion • A SIMPLE many be converted only if it has been funded with a SIMPLE contribution for at least 2 years

Source of Funding: Roth IRAs (2 of 2)

Source	Key Rules	Comments
Retirement plan rollovers from qualified plans [401(a) and 403(a)], 403(b), and governmental 457(b) plans- **Non-Roth**	• No limit on amount • Amount must be eligible for rollover	• Any pre-tax amount is included in income for the year of the conversion • Tax withholding is not considered part of a conversion
Retirement plan rollovers from qualified plans [as above] plans- **Roth**	• No limit on amount • Amount must be eligible for rollover	• Tax-deferred
529 to Roth	• $35,000 lifetime limit • Annual IRA contribution limit	• Tax-deferred

529 to Roth

Excess (unused) 529 plan amounts

- Lifetime limit of $35,000
- 529 plan that has been maintained for 15 years
- Amount must ‘bake’ 5 years in the 529 plan before rollover
- 529 rollover + IRA/Roth IRA contribution cannot exceed limit for the year
  - Carryback allowed.
- Must be done directly between custodians. Paid to Roth IRA

Real Life Case!

Beware of the Intentional Roth Conversion

Citations: LTR 202423009: IRS Denies Waiver of 60-day deadline

- Taxpayer intended to rollover a traditional 401(k) to a traditional IRA
- Taxpayer intended to move amount via a direct rollover a traditional IRA
- Receiving IRA was a Roth IRA. She found out when she received the Form 5498.
- Taxpayer :failure to accomplish a transfer within the 60-day period was due to an error committed by Financial Institution.

IRS denied the waiver request

Before Choosing To *Roth!*

Considerations for The Suitability Assessment!

Should they?

Shouldn't they?

Next:
Money Guide Case Study

Takeaways for Advisors

- Assets can be moved between retirement accounts. But restrictions apply in most cases.
- Check the receiving and delivering account to determine eligibility
- Use the ‘transfer’ method to avoid limitations.
- Correct ineligible rollovers timely to avoid the annual 6% excise tax.

Questions?

Send them to Training@DeniseAppleby.com

Thank you for your attention and your time!