

IRS Clarification: One-Per-Year Limit IRA Rollovers

IRS Notice 2014-32

IRS Notice 2014-32 first and foremost applies to IRAs and Publication 590. The notice covers IRAs being defined as Traditional IRA, Roth IRA, SEP and SIMPLE IRA. This notice does not cover Qualified Retirement Plans.

There are three specific types of TRANSFERS relating to qualified accounts.

- Direct Rollover
- Direct Transfer
- **Rollover (Indirect Rollover) aka the 60 day Rollover**

Both a Direct Rollover and Direct Transfer move funds directly from one custodian to a new custodian as part of a direct trustee transfer. The account owner never takes constructive receipt.

Learned by many in this industry, a *direct rollover* relates to the movement between different types of tax qualified accounts, such as 401(k) to IRA. A *direct transfer* relates to the movement of the same tax qualified account types (IRA to IRA).

An Indirect Rollover by contrast deals with the movement of tax qualified money, where the tax qualified account may be the same or different. An account owner requests a *distribution* from their account, taking constructive receipt of the funds and per the current code, said funds may be used in any way chosen by the owner. Provided those same funds are reestablished within 60 days from the date of distribution, a taxable event and penalty will not be applied.

Publication 590 as currently written, allows for the 60 day indirect rollover *per IRA* account, allowing one from each within a 12 month period. This means a client with multiple IRA accounts could utilize the 60 day rule for each IRA, provided they are within the designated 12 month period. **Beginning January 1st, 2015 this is no longer allowed and IRAs will be aggregated for the purpose of applying the 60 day Rollover rule.** *To be clear, if an IRA holder has multiple accounts and this option is exercised from any one of such accounts, the option will not be available from another IRA for a period of 12 months.*

In some instances a producer may direct a client to take receipt of funds as a way to eliminate expected conservation efforts by the existing agent. Those checks would be deposited and re-written by the client to the new custodian or properly endorsed, making it further payable to a new custodian. **This last practice should be prohibited going forward and affecting a direct trustee transfer resolves the issue.**

Over the years I've seen checks submitted with application, made payable to a new custodian FBO the client. In practice, it would seem the client isn't taking constructive receipt of such funds, and that it would qualify as a direct trustee transfer. What we find instead, is that while a custodian may allow for a distribution check to be made payable to a third party payee, the transaction is still considered a distribution, a 1099-R is generated, and the amount is coded as taxable. Due to the lack of understanding then, the newly established account is not designated as being from a 60 day Indirect Rollover and the offsetting 5498 is never created and sent to the IRS.

In closing just remember. There is no limit to the number of trustee transfers an IRA owner makes. And fear nothing in relation to Direct Rollovers from qualified plans. The rules apply to IRAs and IRAs only.

Disclaimer: All information included as based on research and practice of these issues, along with the actual IRS and Department of Treasury ruling. This information is subject to change at any time without prior notice.