

What Happens if I Complete More Than One Rollover in a 1-Year Period?

If you complete more than one rollover in a 1-year period, the second rollover is considered an ineligible contribution and may be taxable and subject to an additional 10% penalty tax for early distribution. The ineligible amount rolled over is then treated as a current year contribution. This could result in a 6 percent penalty tax if you exceed the maximum allowable contribution (generally \$5,500 or \$6,500 for 2015 depending on your age) for the deposit year. The 6 percent penalty is assessed to you for each subsequent year it is not corrected. Additionally, a 20 percent penalty tax could be imposed for underpayment attributable to negligence or disregard of the regulations or substantial understatement of income tax. Finally, funds that are not eligible to be held in an IRA (e.g., if they are not eligible for rollover) may not be protected from attachment or other attempts at collection.

Example

Lucia, age 35, took a \$10,000 distribution from Roth IRA A on October 9, 2015 and then rolled it over within 60 days. On January 22, 2016, Lucia took \$50,000 from traditional IRA B and rolled it over in violation of the 1 per year rule. The \$50,000 distribution is ineligible for rollover and was fully taxable. If not timely corrected, Lucia understated gross income by \$50,000. She owes an additional \$19,800 in income tax for this amount--and may be subject to a 20% penalty for substantial understatement of income tax under certain circumstances. Lucia owes a 10% early distribution penalty tax on the amount. If Lucia does not remove the excess earnings attributable by the 2016 tax-filing deadline, including extensions, she will also owe a gross distribution penalty for each year it is not corrected. She could use \$5,000 for her 2016 regular contribution.

This brochure is intended to provide general information on federal tax law governing the one-rollover-per-1-year (12-month) limitation. It is not intended to provide legal advice or to be a detailed explanation of the law or how it may apply to your individual circumstances. For specific information, you are encouraged to consult your tax legal professional. IRS Publication 590, Individual Retirement Arrangements (IRAs), 2014, U.S. Individual Tax Return, IRS Form 1040 Instructions, and the IRS web site, www.irs.gov, may also provide helpful information.

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IRA-to-IRA Rollovers: One Per 1-Year Limitation and Its Effects



TRADITIONAL, ROTH
AND SIMPLE IRAS