One and Done

The 60-Day IRA Rollover

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If you think it's a little strange that you have more than one IRA in your name, you may be surprised to find out that it's relatively common for investors to accumulate multiple IRAs over time. Whether it's a Simplified Employee Pension (SEP) IRA for your business or a Traditional IRA that was funded from an old 401(k) rollover, it's relatively simple to open an IRA with a bank or other financial institution. To help manage your retirement assets, the IRS has several methods that will allow you to make nontaxable transfers between like-registered IRAs. One such method is the 60-day rollover. With the recent change in IRS regulations related to the 60-day rollover, it's important for investors to understand these rules in order to avoid negative ramifications.

Definition The 60-day rollover allows you to transfer assets from one IRA (or other retirement plan) to another IRA. Specifically, the IRS will allow you to withdraw cash or other assets from one eligible retirement plan and contribute all or part of it, within 60 days, to another eligible retirement plan.[1] This is a nontaxable event for all assets redeposited into an eligible IRA. You could even remove assets from an IRA and redeposit the amount back into the exact same IRA within 60 days and it would fall under the 60-day rule. Assets removed from an IRA that are not deposited into an IRA within the 60-day time frame are considered a distribution and are subject to income tax. If the IRA owner is under the age of 59.5, this could also incur a 10% early distribution penalty.

Limitations Section 408(d)(3)(B) of the Internal Revenue Code provides details outlining that one IRA-to-IRA transfer performed in this manner is allowed per year. In a recent case, Bobrow v. Commissioner, the U.S. Tax Court examined this issue and determined that the one-per-year limitation on the 60-day rollover applies to all of an individual's IRAs. Thus an individual could not make an IRA-to-IRA rollover if that person had already executed this type of rollover within the previous 365 days—despite the fact that the first rollover may have occurred in a different IRA.[2]

Qualifying Transfers All IRA-to-IRA transfers using the 60-day rollover are subject to the once-every-365-day limit. A transfer from a retirement plan, such as a 401(k) or 403(b), to an IRA does not have a limit on the amount of times a 60-day rollover can be done within a year. The reverse of this also applies. A transfer from an IRA to an eligible retirement plan like a 401(k) would not trigger the limitation of 60-day rollovers. Further, Roth Conversions (moving assets from a pre-tax IRA or retirement plan into a Roth IRA) also do not count toward the limitation on rollovers.

Penalties If an individual were to perform a second rollover from one IRA to another utilizing the 60-day rule and not waiting the full 365 days, then that entire amount would be considered a taxable distribution and taxed at ordinary income rates. Even more detrimental, if that person does not realize he or she has violated this provision and allows the rolled-over funds to remain in the IRA, it could be considered an excess contribution. If not withdrawn by the date your tax return is due for the year, an excess contribution is subject to a 6% tax. This 6% tax must be paid each year that the excess contribution amount, and the earnings it generates, remains in the IRA.

Alternatives While this new ruling could cause problems for investors who frequently utilize the 60-day rollover strategy, understand that there are other types of rollovers that do not have a restriction on the number of times they can be utilized in a year. The simplest method to transfer one IRA to another and avoid even the perception that you have taken control of the funds is to do a trustee-to-trustee transfer. With this method, you request that the trustee currently holding the IRA transfer the desired amount directly to the other trustee to be deposited into your IRA there. This allows you to avoid ever having the funds in your direct possession and would not trigger the limitation on rollovers. Typically, this is the type of IRA-to-IRA transfer that RMB advisors recommend to our clients.

Bottom Line It's important to make sure you understand the new mandate by the U.S. Tax Court, which goes into effect January 1, 2015, in order to properly plan for any expected IRA transfers. You also want to make sure that, if you are using the 60-day rollover, you are not violating the rules of its use.

- If you utilize the 60-day rollover this year, you will want to keep this date in mind when planning for a potential 2015 rollover. For example, say you use the 60-day rollover this September to move an amount from your IRA at bank #1 to a new IRA that you just opened at bank #2. Now fast-forward to spring 2015 and imagine you need a short-term loan that you plan to repay within 60 days. You would not be able to pull funds from any IRA that you own without this being a taxable distribution—even if it is your intention to move the balance back into the IRA within 60 days.
- When using the 60-day rollover, remember that you must deposit the same asset that is withdrawn. You cannot withdraw cash from your IRA, use that cash to buy shares of stock, and then redeposit those shares of stock. If cash is what was originally withdrawn from the IRA, then cash must be deposited within the 60 days to avoid a taxable distribution.

When using the 60-day rollover, it might be beneficial to get confirmation from the IRA custodian that your deposit was coded correctly as a rollover and not a contribution. Be attentive to the amount of time that has passed to avoid missing the redeposit window. Always consider using a trustee-to-trustee transfer as your first option when looking to make a rollover transfer. Taking the extra step to ensure that no inadvertent errors were made during this process can save you a lot of headaches later on. ■

1 *"Topic 413: Rollovers from Retirement Plans," www.irs.gov, February 27, 2014.*
2 *Bobrow v Commissioner, T.C. Memo 2014-21.*
Sources: www.irs.gov; IRS, Pub. 590 : Individual Retirement Arrangements (IRAs) (2013).

Index Descriptions

- The S&P 500 is widely regarded as the best single gauge of the United States equity market. It includes 500 leading companies in leading industries of the U.S. economy. The S&P 500 focuses on the large-cap segment of the market and covers approximately 75% of U.S. equities.
- The MSCI EAFE Index measures international equity performance. It comprises the MSCI country indices that represent developed markets outside of North America: Europe, Australasia, and the Far East.
- The MSCI EM Index measures equity market performance in the global emerging markets universe. It covers more than 2,700 securities in 21 markets that are currently classified as EM countries. The MSCI EM Index universe spans large-, mid-, and small-cap securities and can be segmented across all styles and sectors.
- The HFRI Fund of Funds Composite Index is an equal-weighted index containing over 600 constituent funds. It only includes funds of funds. The equal weighting of this index provides a more general picture of performance of the fund of funds industry, since any bias towards larger funds is reduced. The constituent funds can be either domestic or offshore, but they all report in U.S. dollars. The funds within the index report net (of all fees) returns on a monthly basis and have at least $50 million under management, or have been actively trading for at least 12 months.
- The FTSE NAREIT All Equity REITs index contains all tax-qualified REITs with more than 50% of total assets in qualifying real estate assets other than mortgages secured by real property that also meet minimum size and liquidity criteria.
- The Alerian MLP Index is a composite of the 50 most prominent energy Master Limited Partnerships (MLPs) that provides investors with an unbiased, comprehensive benchmark for this emerging asset class. The index is calculated using a float-adjusted, capitalization-weighted methodology.
- The Dow Jones-UBS Commodity Index is a broadly diversified index that allows investors to track commodity futures through a single, simple measure. The indices are composed of futures contracts on physical commodities.
- The Barclays Capital U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment-grade fixed-rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. Duration is roughly five years. The index is roughly 35% U.S. Treasuries, 32% MBS / CMBS, 20% corporate bonds, 6% government-related, and 7% other types of bonds. There are no TIPS in this index.