Transfers and Rollovers

Your Retirement Dollars On the Move

The dollars you've saved have probably required some sacrifices for the benefit of a more secure retirement. Now that you have those dollars safely in an IRA or another retirement plan, it is paramount that you protect their tax advantages if you are considering moving them from one kind of plan to another, or simply from one trustee or custodian to another.

Mishandling such asset movements can have potentially disastrous tax consequences. Recent tax court rulings confirm that the IRS generally considers the individual taxpayer – the individual who owns the IRA or the retirement plan account – to be responsible for making the right decisions and taking the right actions, as well as accepting any tax consequences that arise.

Following is a general overview of the options available.

How can retirement assets be moved?

The assets in your IRA or employer-sponsored retirement plan – commonly referred to as a qualified plan – can be moved by several different transactions. These are known as:

- Rollovers.
- Direct rollovers.
- Trustee to Trustee or Custodian to Custodian transfers.

What is a rollover?

A rollover begins with a payout (termed a distribution), followed by re-contributing all or a portion of the assets to another plan. The payout may be from an IRA, qualified plan, tax-sheltered annuity or 457(b) deferred compensation plan. Re-contribution to an IRA or employer plan must take place within a 60-day period, or the assets lose their ability to be returned to a tax-advantaged account, and unless they have previously been taxed will generally be treated as ordinary income and taxed in the year they are received.

Do rollovers require reporting?

Because a rollover begins with a distribution, the IRS will receive a report from the distributing institution showing that the taxpayer received the funds. If the assets are re-contributed to an IRA, a separate report to the IRS from the receiving institution will confirm this. You the taxpayer will also have to show the transactions on your tax form for the year the rollover took place.

When is a rollover not possible?

A rollover is not allowed in certain circumstances.
Prohibited are:

- More than one same-fund or same-account IRA-to-IRA rollover within 12 months.
- Rollovers from a SIMPLE IRA plan during the first two years of plan participation.
- After age 701/2 amounts that represent a taxpayer's required minimum distribution for that year (if this requirement has not yet been met).
- Rollover from a Roth IRA to a Traditional IRA or Qualified plan.
- Beneficial interest or "Inherited" IRAs may not be rolled over by Non-spouse beneficiaries

Would a Roth IRA conversion benefit me?

With certain restrictions, Traditional IRA assets when converted to a Roth IRA, will be included in income and taxed; however, their future earnings may be tax-free, a potentially greater long-term benefit.

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What is a transfer?

In retirement plans, the term "transfer" has a narrower meaning than in everyday communication. A transfer is the movement of plan assets directly from Trustee to Trustee or Custodian to Custodian, with no limitation of one transfer per 12-month period, as there are with IRA rollovers.

With a transfer transaction, the taxpayer does not have the ability to cash and use the funds. Therefore, the transaction is not considered a distribution to the taxpayer, is not reported and the IRS will not consider the income taxable.

What is a direct rollover?

A direct rollover has some of the characteristics of both rollovers and transfers.

A direct rollover:

- Always originates with assets in a qualified plan, tax-sheltered annuity, or 457(b) deferred compensation plan.
- Is a movement either to an IRA, or to another employer plan.
- Assets are not negotiable by the taxpayer.

Are all assets eligible for direct rollover?

Assets held in most qualified retirement plans, tax-sheltered annuities, or 457(b) deferred compensation plans are eligible for direct rollover, with certain exceptions, including

- Required minimum distributions after age 70-1/2.
- Certain annuity-like life expectancy payments from a Qualified plan.
- Distribution due to financial hardship.

Is a direct rollover a smart move?

When assets are distributed from an employer plan directly to a plan participant, there is generally mandatory withholding of 20 percent of the distribution as a prepayment of tax liability, even if the distribution is ultimately rolled over to another plan. However, if the employer plan assets move directly to an IRA or another employer plan via a direct rollover, this amount is not withheld.

Are direct rollovers reported?

Although a direct rollover is very much like a transfer, it is reported to the IRS like a distribution. A special code on the distribution report alerts the IRS to the fact that the assets were moved via a direct rollover to an IRA or employer plan, and are not currently taxable.

We can help…

Rollovers, direct rollovers and transfers offer opportunities to move your retirement assets to where you want them, while retaining their substantial tax advantages. To be sure that your rollover or transfer is handled properly, contact the experts at Salem Five. Call Louise A. Mallett, CISP, Vice President at 978-720-5255. Start today on the road to a secure future.