WELLS FARGO **Advisors**

60-day rollover rule

There are several ways to move money between qualified employer sponsored retirement plans (QRPs), such as 401(k), 403(b), or governmental 457(b) and IRAs. These include direct transfer, direct rollover, and indirect rollover. The indirect rollover is also known as the 60-day rollover.

Moving IRA assets

Direct transfer—IRA to IRA

A direct transfer occurs when your IRA provider sends your IRA assets to another IRA custodian. There are no taxes, penalties, or IRS reporting for this method. This generally involves completing a transfer form, not a distribution form, at the receiving institution. You can do an unlimited number of trustee-to-trustee direct transfers per year.

Indirect or 60-day rollover—IRA to IRA

You can take a distribution from an IRA and roll it back into that IRA or an IRA at another institution within 60 calendar days. Please note that only one distribution is eligible to be rolled over per 365 days. However, even though this will be a tax reportable event, there are additional rules to be aware of so you do not create a potential taxable event.

- First, you are limited to one 60-day IRA-to-IRA rollover every 365 days. This limitation applies to you, the IRA owner, on an aggregate basis for all IRAs of any type that you own. The 365-day time limit begins when the IRA distribution is received, not when it is deposited as a rollover contribution.
- Second, the assets rolled back into the IRA must be the same assets distributed from the original IRA. So, if cash is distributed, cash must be rolled over; if securities are distributed, the same securities must be returned.
- Last, you are able to opt out of tax withholding from your IRA distribution if you intend to roll over the distribution.

Moving QRP assets

What distributions are eligible to be rolled?

You can only roll over assets eligible for distribution from your QRP to an IRA. You generally need a reason to take a distribution, such as leaving your employer. You cannot roll over the following:

- Required Minimum Distributions (RMDs)
- Substantially Equal Periodic Payments (SEPP)
- Hardship distributions
- Loans treated as deemed distributions
- Additional exceptions found in IRS regulations

Direct rollover—QRP to IRA

A direct rollover occurs when your employer sends your QRP distribution directly to your IRA provider. There are no taxes or IRS withholdings, which helps preserve your retirement savings.

Indirect rollover—QRP to IRA

If you receive a check made payable in your name from either a former employer's QRP or a current employer's QRP, you have 60 days to roll over those assets by having them deposited into a retirement account. The amounts must be eligible to be rolled over. Failure to complete a rollover during that 60-day time frame will trigger taxes, and depending on your age, the 10% additional tax. This will also end any tax-advantaged compounding on those funds. While finishing an indirect rollover seems fairly easy, there are several rules that can make it complicated.

- First, the IRS requires a mandatory 20% withholding for federal taxes when you receive a check, made payable to you, from your QRP. Some states may require withholding of state taxes as well.
- Second, to avoid paying taxes and potential 10% additional tax on the distributions, you will need to roll over the total amount (including withholding) distributed into an eligible retirement account within 60 days of your receipt. This is accomplished by personally depositing (out of pocket) the 20% tax withholding that was deducted from your distribution within the 60-day period.
- Last, you are not required to deposit the entire amount at once. Instead, this rollover can be completed with multiple rollover deposits as long as the deposits are completed within the 60-day period.

Remember

Any portion of your QRP not rolled over, including the 20% withholding, will be considered a taxable distribution. You will pay ordinary income tax on the taxable portion plus you may owe an IRS 10% additional tax for early, or pre-59½ distributions (10% additional tax).

Keep in mind, after a distribution is taken from an Inherited IRA, you will not be able to put it back because this account cannot accept contributions including 60-day rollover contributions.

Additional facts to know

It is important to understand the additional rules regarding a 60-day rollover.

- The 60 days begin when you take constructive receipt of the distribution, not the date the check was issued.
- If the 60th day falls on a weekend or legal holiday, the rollover must be completed no later than the last business day immediately *prior* to the weekend or holiday.
- The once every 365-day rule does not apply to a rollover from a QRP to an IRA. You can roll over more than one distribution from the same QRP within a year.
- Only one distribution is eligible to be rolled over per 365 days. If you have received multiple distributions, only one of those distributions is eligible to be rolled in the 60-day period.
- When rolling assets from a QRP to an IRA, the same assets that were distributed or the proceeds from the sale of those assets may be rolled over.
- The once every 365-day rule does not apply to a Roth conversion.
- You do not have to take a full distribution of the IRA, partial distributions are allowed.
- Keep in mind that you cannot roll over your RMD. When you are subject to RMDs, the IRS considers the first amounts distributed from IRAs and QRPs to satisfy the RMD.
- You will receive a Form 1099R to report the distribution and a Form 5498 to report the rollover contribution. Remember that Form 5498 is usually not mailed until after the tax filing deadline.
- There is a 120-day exception to the 60-day rule for first-time homebuyers.
- Rollovers made after the 60-day period are generally treated as an annual contribution.
- Qualified federally declared disaster distributions up to $22,000 are not subject to the 10% additional tax (or the additional 25% tax for certain distributions from SIMPLE IRAs). You have three years from the day after the date you received the distribution to repay these amounts. Repayments are treated as a trustee-to-trustee transfer, not a rollover, for purposes of the one IRA-to-IRA rollover every 365 days limitation.
- You cannot repay a distribution taken as a nonspouse beneficiary or that was an RMD.
- A trustee-to-trustee direct transfer is the best way to avoid missing the 60-day rollover time frame or potentially violating the one per year, per IRA owner rollover rule.
- One final note is that this rule is not available in Inherited IRAs because Inherited IRAs cannot accept contributions, including 60-day rollover contributions.

Hypothetical examples

Let's look at two hypothetical examples to better understand this.

QRP hypothetical example

Earl, age 50, retires from Widget World and receives a check for the balance of his QRP minus the 20% withholding. His plan balance was $100,000, but since 20% was withheld, he has a check for $80,000. Two weeks after receiving the check, he deposits the $80,000 into his IRA. His Financial Advisor informs him that he can make up "out-of-pocket" the $20,000 that was withheld before the 60 days expires. By doing so, Earl will not owe tax on that withheld amount. Earl makes additional rollover deposits totaling $20,000 before the 60 days has expired. When he files his taxes, he may receive a refund of the amount withheld, if no additional tax is owed.

Earl's 60-day rollover hypothetical example	
Plan distribution	$100,000
Minus 20% mandatory withholding	($20,000)
Distribution received	$80,000
Total rolled over within 60 days	**$100,000**

IRA hypothetical example

Victoria, age 35, has two IRAs: IRA A worth $20,000 and IRA B worth $20,000. She requests a check from IRA A for $20,000 to fund a short-term need. Within 60 days, she deposits the $20,000 into IRA B. The following week, she requests a check for $40,000 from IRA B. When she tries to deposit the $40,000 back into IRA B within 60 days, she discovers this amount is ineligible for a 60-day rollover. This is because she has already taken advantage of a 60-day rollover and is not eligible to complete another 60-day IRA-to-IRA rollover for 365 days. She will owe tax and the 10% IRS additional tax on the $40,000 distribution.

Talk to Wells Fargo Advisors

We hope these facts will help you in planning your IRA distributions and rollovers. If you have questions or want to learn more, please contact your Financial Advisor with Wells Fargo Advisors. Wells Fargo Advisors does not render legal, accounting, or tax advice. Please consult your tax and legal advisors before taking any action that may have tax or legal consequences.
We look forward to working with you to meet your financial goals.

With you every step of the way

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