Beware Of the One-per-12-Month IRA Rollover Limitation Beginning In 2015

Article Highlights:

- 60-Day limit
- New interpretation
- New one-per-12-month-period rollover rule
- Types of plans included

The tax code allows an individual to take a distribution from his or her IRA account and avoid the tax and early distribution penalties if the distribution is redeposited to an IRA account owned by the taxpayer within 60 days of receiving the distribution.

Early in 2014, in a tax court case, the court ruled that taxpayers could only have one IRA rollover per 12-month period. This was contrary to the IRS's long-standing one rollover per every IRA account every 12 months. This far more liberal position was also included in published IRS guidance. However, contrary to general public opinion, guidance provided by the IRS in their publications is not citable, carries no weight in audit or court, and only represents the IRS' interpretation of tax law.

As a result, the IRS has adopted the Court's more restrictive position, but will not apply the new interpretation until 2015, giving taxpayers time to become aware of the new restrictions. The IRS is modifying its published 2015 guidance to reflect this new position.

The IRS announced in November that the one-per-12-month-period rollover rule also applies to Simplified Employer Pension Plans (SEPs) and SIMPLE plans. Included in the November announcement, the IRS indicated it would not count a distribution taken in 2014 and rolled over in 2015 (within the 60-day limit) as a 2015 rollover.

Not counted towards the one-per-12-month rule are traditional to Roth IRA conversions or trustee-to-trustee IRA transfers where the funds are directly transferred from one IRA trustee to another.

Please call this office if you are planning an IRA distribution and subsequent rollover and are not positive it falls within the one-per-12-month limit.