- Distributions that are considered made from regular contributions and nondeductible rollover contributions are tax-free and penalty free, regardless of your age or any other circumstance.
- If the beneficiary of your Roth account is an individual other than your spouse, he or she must take a distribution of the balance in the account by the end of the fifth year containing the anniversary of your death, or over his or her life expectancy.

Compliments of

Brun's Tax Service
21704 Golden Triangle Road Suite 104
Santa Clarita, CA 91350

661-799-8829

www.BrunsTaxService.com

This brochure contains general tax information for taxpayers. As each tax situation may be different, do not rely upon this information as your sole source of authority. Please seek professional advice for all tax situations.

#847 – © Copyright September 2014
National Association of Tax Professionals
PO Box 8002
Appleton, WI 54912-8002
www.natptax.com

Rollovers to a Roth IRA

Tax Advantage or Disadvantage

Roth IRAs are different than traditional IRAs in that the contributions are never deductible. However, if the Roth IRA is held long enough, the distributions are tax-free. That means you may never have to pay tax on the earnings. Annual contributions are not the only way to invest in a Roth IRA. You can also rollover eligible distributions from a traditional IRA. Such rollovers are also called conversions. The rules for rollover contributions are different from the rules for making regular contributions to a Roth account.

Starting January 1, 2015, you can make only one rollover from a traditional IRA to another (or the same) traditional IRA in any 12-month period, regardless of the number of IRAs you own. A similar limitation applies to rollovers between Roth IRAs. You can, however, continue to make as many trustee-to-trustee transfers between IRAs as you want. Amounts transferred between traditional IRAs, either by rollover or trustee-to-trustee transfer, are excluded from your gross income.

Who Can Make Rollover Contributions?

All individuals, no matter filing status or modified adjusted gross income (MAGI), are eligible to rollover traditional IRAs and certain employer accounts to Roth IRAs.

How Much Can I Rollover Into a Roth IRA?

- There is no limit on the amount that you can rollover into a Roth IRA.
- The rollover can come from one or more accounts and contain both deductible and nondeductible contributions.
    - A partial rollover from a traditional IRA also is allowed.

When Can I Make a Rollover to a Roth IRA?

- There is no "grace period" in which to make a rollover. Unlike Roth IRA contributions that can be made up until the due date of the return, a rollover cannot be made retroactive. Therefore, the amounts rolled from a traditional IRA to a Roth IRA during the tax year are accounted for on the tax return for that tax year.

- The transferred amount must include the earnings on the amount transferred.
- For purposes of the one-rollover-per-year rule for IRAs, a rollover from a traditional IRA to a Roth IRA does not count as a rollover.

How Are Contributions to a Roth IRA Taxed?

- Deductible contributions from traditional IRAs that are rolled into a Roth IRA are generally taxed in the same year that the rollover occurs.
- The nondeductible amounts are rolled over into a Roth IRA tax-free.
- If you rollover a combination of deductible and nondeductible amounts into the Roth IRA, you'll need to determine how much of the amount rolled over will be included as income. This calculation is similar to that used for determining the taxable amount of an IRA distribution comprised of deductible and nondeductible contributions.

Caution: If nondeductible IRAs are rolled over into a Roth IRA and you also own other IRA accounts which will not be rolled over, special basis allocation rules apply. These basis allocation rules require the basis of the IRAs to be allocated among all IRAs based on fair market value. The results of this special calculation can cause significantly higher taxes on the rollover transaction.

When Can I Take Distributions and How Are They Taxed?

- You can take distributions at any time, but they are subject to different tax consequences. Roth IRAs are never subject to the age 70½ minimum distribution requirements.
- All of the normal penalty exceptions that apply to traditional IRA distributions also apply to Roth distributions.
- When you take a distribution, regular contributions you made to the Roth are deemed to come out first, followed by rollover amounts in the order contributed. Earnings are distributed last.
- If the distribution is from a rollover that includes deductible and nondeductible amounts, the deductible amounts are considered to be distributed first.
- Distributions you take from a Roth IRA five years after the account was funded and after you reach age 59½, become disabled, die or become a first-time homebuyer, are tax-free and penalty-free. For rollovers, the five years is measured from the year of the rollover contribution.
- For distributions that are considered made from deductible rollover contributions and earnings not meeting the five-year or age 59½ tests, further analysis is needed to determine the taxability and penalty potential. Consult your tax advisor to determine how these amounts may be taxed.