IRA Rollover Chart: Rules Regarding Rollovers and Conversions

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Article Highlights

- Retirement savings can be moved from one account to another via a direct rollover, a trustee-to-trustee transfer or a 60-day distribution. Savings can also be converted into a Roth IRA or recharacterized from it.
- Distributions taken directly from a retirement savings account, such as a 401(k) plan, must be reinvested as retirement savings within 60 days. Failure to do so can result in a penalty on top of taxes.
- Only one IRA rollover is allowed in any 12-month period. This rule does not apply to Roth IRA conversions, 401(k) rollovers, or transfers of the entire account to a new broker.

The Internal Revenue Service has a very helpful chart showing what types of retirement savings account can be rolled over or converted into another type of retirement savings account.

We republish the chart here with a few modifications to make it easier to use (Figure 1). Rollovers generally fall into one of three categories: direct, trustee-to-trustee or 60-day.

A direct rollover is a distribution from a defined-contribution (DC) plan to another defined-contribution plan or an IRA. When you leave a job, you have the option of moving your 401(k) savings or other similar employer-sponsored plan assets to an IRA or to your new employer's defined-contribution plan (assuming your new employer allows you to do so).

A trustee-to-trustee transfer occurs when you move your account from one financial institution to another. An example would be moving your traditional IRA account from one brokerage firm (e.g., Fidelity) to another brokerage firm (e.g., Charles Schwab).

The key differentiator with 60-day rollovers is that the account balance is paid directly to you as opposed to being directly transferred from one financial institution to another. Once the rollover starts, you have 60 days to deposit the balance into a new retirement account. The IRS describes the deadline as "the 60th day following the day on which you receive the distribution." Failure to meet this deadline will result in not only a forfeiture of the withheld taxes but also a potential tax penalty.

A fourth type of transaction is a conversion. Known more commonly as a Roth IRA conversion, this involves converting assets held in a tax-deferred account, such as a traditional IRA, into an aftertax account, such as a Roth IRA. The amount converted is taxable at ordinary income rates. Once the conversion is made, you have a limited opportunity to undo (recharacterize) it. You can generally recharacterize your conversion or rollover by October 15 of the following year. It may be advantageous to do so if the Roth account falls in value after the conversion was made.* (Recharacterizations are not represented in Figure 1.)

Rules to Keep in Mind

There are a few basic rules to keep in mind. First, the tax treatment of the dollars contributed to an account influences whether taxes will be triggered if those assets are moved to a different type of account. Assets held in a qualified account, such as a 401(k) plan, can be rolled over into traditional individual retirement account (IRA) tax-free since both types of accounts are funded with pretax dollars. Assets converted from a 401(k) plan or a traditional IRA into a Roth IRA will be taxed at ordinary income rates. This is because the Roth IRA holds aftertax dollars. [No taxes are triggered when Roth 401(k) assets are rolled over to a Roth IRA.]

Second, as previously stated, if the balance from an IRA or retirement plan is distributed directly to you, you only have 60 days to deposit the amount into another IRA or retirement

Figure 1. The Internal Revenue Service's Rollover Chart

ROLL FROM ↓ / ROLL TO →	Roth IRA	Traditional IRA	SIMPLE IRA	SEP-IRA	Governmental 457(b)	Qualified Plan[1] (pretax)	403(b) (pretax)	Designated Roth Account [401(k), 403(b) or 457(b)]
Roth IRA	✓[2]	✗	✗	✗	✗	✗	✗	✗
Traditional IRA	✓[3]	✓[2]	✗	✓[2]	✓[4]	✓	✓	✗
SIMPLE IRA	✓[3] after two years	✓[2] after two years	✓[2]	✓[2] after two years	✓[4] after two years	✓ after two years	✓ after two years	✗
SEP-IRA	✓[3]	✓[2]	✗	✓[2]	✓[4]	✓	✓	✗
Governmental 457(b)	✓[3]	✓	✗	✓	✓	✓	✓	✓[3,5]
Qualified Plan[1] (pretax)	✓[3]	✓	✗	✓	✓[4]	✓	✓	✓[3,5]
403(b) (pretax)	✓[3]	✓	✗	✓	✓[4]	✓	✓	✓[3,5]
Designated Roth Account [401(k), 403(b) or 457(b)]	✓	✗	✗	✗	✗	✗	✗	✓[6]

[1] Qualified plans include, for example, profit-sharing, 401(k), money purchase and defined-benefit plans
[2] Only one rollover in any 12-month period
[3] Must include in income
[4] Must have separate accounts
[5] Must be an in-plan rollover
[6] Any amounts distributed must be rolled over via direct (trustee-to-trustee) transfer to be excludable from income

For more information regarding retirement plans and rollovers, visit IRS.gov page Tax Information for Retirement Plans.
Source: IRS.gov.

plan. Failure to complete the rollover within this time window will result in the distribution being taxed at your marginal tax rate (it counts as ordinary income). If you are under the age of 59½, you could be charged a 10% penalty on top of having to pay taxes based on your ordinary income rate.

Third, you are only allowed to make one IRA rollover in any 12-month period. Note the language: It does not say "calendar year," but rather "12-month period." This rule went into effect on January 1, 2015. There are exceptions to it:

- Roth IRA conversions: These are taxable transactions and not subject to the rule.
- Trustee-to-trustee transfers: You can move your account and IRA assets from broker to broker as many times as you like so long as the assets are not distributed to you. (A check payable to you instead of the receiving IRA custodian would trigger the 12-month rule.)
- Qualified-plan-to-IRA rollovers: A different part of the tax code covers rollovers from 401(k) plans to IRAs, so these do not count against the 12-month restriction.
- Plan-to-plan rollovers: You can move your 401(k) savings from one employer to another without triggering the time restriction.

Finally, if you recharacterize all or part of a Roth IRA rollover or conversion, there are two stipulations to be aware of. If you already had filed a tax return listing the rollover or conversion, you will need to file an amended return for that specific tax year. You also cannot reconvert the amount recharacterized to the same or a different Roth IRA until the later of either a 30-day window following the recharacterization or the year following the year of the rollover or conversion.* You can, however, convert amounts from a different traditional IRA to a Roth IRA immediately. ▲

**As of January 1, 2018, Roth IRA conversions can no longer be undone (aka recharacterized).*

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