

IRA Rollovers — Know the Rules

Maybe you're unhappy with your investment choices. Or maybe you think the fees assessed to your account are too high. Whatever your reason for deciding to roll over your traditional individual retirement account (IRA) into a new traditional IRA at a different financial institution, carefully following the rollover rules can help you avoid costly mistakes.

How It Works

Once you receive the funds from your current IRA, you have 60 days from that date to roll them over to a new IRA. If you fail to roll over the funds within the time limit, the taxable amounts distributed must be included on your federal income-tax return for that year. These funds will be treated as ordinary income and taxed at your current income-tax rate. State income taxes may also apply.

If you haven't reached age 59½, you'll generally owe an additional 10% penalty on the early distribution. (Certain exceptions apply.)

The One-year Rule

Generally, once you've made a tax-free rollover from one IRA into another IRA, no further rollovers are permitted in the same year from either IRA. Having the trustee of your IRA directly transfer funds to a different IRA trustee (a trustee-to-trustee transfer) is not considered a rollover for purposes of the one-year rule since you never have control or use of the transferred funds.

If you roll over a distribution from an employer's qualified plan to an IRA, you still have the flexibility to roll the money into a different IRA the same year if you want to.

The Same Assets

You can roll over securities from one IRA to another tax free as long as they are the same securities. Similarly, you can't use cash from an IRA distribution to purchase other assets and then roll those assets over to the new IRA — if the distribution is made in money, the rollover contribution must be made in the form of money.

Avoiding Mistakes

If your plan is simply to move your IRA from one institution to another, a trustee-to-trustee transfer can prevent common rollover mistakes and help you avoid taxes and penalties.