It's Almost Too Late for a 2014 Roth Conversion

(How you can use the 60-day rollover rule to your advantage)

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In last month's newsletter we discussed some of the benefits and considerations of converting your Traditional IRA and 401k retirement accounts to a Roth IRA. This month, as we near the December 31st deadline for Roth conversions, we want to review how you can take advantage of the IRS's 60-day rollover rule so you are not stressing about your end of year finances during the holiday season. Please note that this article does not go into all of the nuances and details that are involved with a 60-rollover and it is highly recommend that if you are considering a Roth conversion that you consult your Tax Advisor, Financial Planner, or give us a call.

There are a few things to understand when it comes to using the 60-day rollover rule to your advantage. You need to know the difference between an indirect rollover and a direct rollover, what the 60-day rollover rule is, and how to use the rule to your advantage.

What Exactly Do It Mean When We Say Rollover?

It is important to understand the difference between an indirect rollover (aka 60-day rollover) and a direct rollover (aka trustee to trustee transfer, or custodian to custodian transfer). Often times these two terms are confused and while they have similarities there are stark differences. I'm sure that many reading this article have moved assets from one retirement account to another. Often times this a seamless transition from one custodian to the next and you never see the check, or the check is made payable to the custodian that houses your IRA rather than you. What I just described is called a direct rollover (trustee to trustee transfer).

An indirect rollover (60-day rollover) is a distribution from a retirement plan where the check is made payable to you so that you can then turn around and redeposit the funds into a different IRA or other qualified retirement plan. With indirect rollovers, you are the "middleman" between the retirement account custodians; hence, it is "indirect" and you become responsible for ensuring the check makes it to next custodian. The indirect rollover (60-day rollover) is a tax and penalty free distribution of assets as long as you adhere to the 60-day rollover rules set forth by the IRS.

What is the 60-day Rollover Rule?

The IRS states that indirect rollover distributions, as mentioned above, must be rolled over within a 60-day period or they will not qualify for the tax-free rollover treatment, and if you are younger than 59½ you may have to pay a 10% penalty tax for the early distribution (some exceptions apply). The IRS also states that you must complete your rollover 60 days following the day that you receive the distribution (not 60 days from the time that the distribution is made). One other caveat that the IRS imposes for 2014 is that the rollover cannot come from an IRA or qualified retirement account that has received or been the source of an indirect rollover in the past 365 days.

How Do You Use The Rule to Your Advantage?
You can use the 60-day rollover rule (indirect rollovers) for one primary advantage – **speed**. Roth conversions via direct rollovers can often take weeks and considering we are at the end of the year time is not on your side. On the other hand, if you initiate a Roth conversion via an indirect rollover (60-day rollover) and you have the cash available in your account, you could see the distribution of the amount that you want to convert take place in less than one day. The reason indirect rollovers work is because *the IRS considers the conversion date to be the date that the assets left your IRA, not the date that you redeposit the funds into your Roth IRA*. For example, if you initiate an indirect rollover on December 26th and your IRA custodian removes the funds from your account that day, but you do not get around to opening your Roth account until February 1st, the IRS still considers you to have met the December 31st deadline for Roth conversions.

In conclusion, it's probably too late to use a direct rollover to set up a 2014 Roth conversion, however you can still complete it on time by using indirect rollovers. The 60-day rollover rule is why the pressure from the December 31st deadline can be alleviated, and you can get on with your holiday festivities.

Warning: While it may sound easy to take advantage of the 60-day rollover rule, it is easier to make a mistake. Additionally, many aspects of the 60-day rollover rule that were mentioned earlier only hold true until December 31st when new tax laws take effect (more on that in later newsletters). Again, we highly recommend that if you are considering a Roth conversion that you consult your Tax Advisor, Financial Planner, or give us a call to help you understand the nuances of the process.

We encourage our readers to provide questions and remarks about our news articles, as well as suggested topics that you would like to learn more about. Please feel free to contact the writer of this article for any feedback at justin@jimhelps.com