Understanding the Once-A-Year Rollover Rule

January 24, 2023

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One of the most misunderstood rules relating to Individual Retirement Account ("IRA") rollovers is the “Once-A-Year” rollover rule. Violation of this rule will result in the Taxpayer being treated as if he/she had received a taxable distribution, and if the Taxpayer is under 59 ½ years of age, a 10% penalty will be imposed on the deemed distribution. There is no abatement relief if the rule is violated. Further, ineligible rollovers when contributed to an existing or new IRA may exceed the annual IRA contribution limit.

What the Rule Applies To:

- The rule applies to rollovers of Non-Roth IRAs to Non-Roth IRAs.
- When applying this rule, all of a Taxpayer's IRAs are aggregated. Thus, a rollover from a Roth IRA to Roth IRA counts as a rollover, but Roth Conversions do not count.

***What the Rule Doesn't Apply To*:**

- Rollovers from Employer Plans to Employer Plans;
- Rollovers from Employer Plans to IRAs;
- Rollovers from IRAs to Employer Plans;
- Roth Conversions

***Avoiding the Once-A-Year Rule*:** The easiest and best way to avoid the Once-A-Year Rule is to make a “Plan-to-Plan” direct transfer under which a taxpayer's IRA is transferred from one IRA custodian directly to another IRA custodian without any distribution being made to the Taxpayer. For example, the direct transfer of an IRA from IRA Custodian #1 to Custodian #2 does not constitute a Rollover.

Also, misunderstood, is how the “Once-A-Year” rule applies. It applies to a *second* attempted rollover of distributions within a one-year period of the *first* distribution.

***Example*:** Arnold receives a distribution from a Non-Roth IRA on March 1, 2022, that he rolled over to another Non-Roth IRA on April 1, 2022. If Arnold receives a second distribution before March 1, 2023, he cannot rollover the second distribution, regardless of when he attempts to rollover the second distribution. The second distribution occurred within one year of the first distribution that was rolled over. Of course, if the first distribution was not rolled over, the second distribution can be rolled over.