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New Changes in Calculating DC Estate Tax Liability

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There has been much recent confusion concerning the rules limiting the number of permissible tax-free rollovers from one IRA to another IRA within the period of a single year. Finally, the Internal Revenue Service ("IRS") has issued a pronouncement which clears up this confusion.

There has long been a rule which limited the number of tax-free rollovers from one IRA to another IRA (within the requisite 60-day period) to only one (1) rollover within a single year – the so-called "one IRA rollover/per year" rule. However, the IRS had previously interpreted this rule to permit an individual to make one such tax-free rollover from each of the separate IRAs the individual owned (e.g., permitting an individual owning five separate IRAs to make a total of 5 separate tax-free rollovers – one attributable to each of the 5 IRAs per year). However, a recent Court decision struck down this interpretation, and mandated that the one IRA/per year rule limits an individual to only one (1) such tax-free rollover from one IRA to another per year, no matter how many separate IRAs are owned by the individual. The IRS has now agreed to go along with this Court interpretation of the rule.

So, beginning in 2015, no matter how many separate IRA accounts an individual may own, the individual will be entitled to only one (1) tax-free rollover from an IRA to another IRA within the period of a single year under the rule. But, there is no such restriction imposed on the number of direct IRA trustee-to-IRA trustee transfers which may be made per year – and such a direct IRA transfer may be the safest way to avoid problems here.

The one IRA rollover/per year restriction also does not apply to a rollover to or from an employer-sponsored qualified retirement plan. Further, the restriction does not apply to a rollover from a Traditional IRA to a Roth IRA – but, a rollover from a Roth IRA to another Roth IRA within a single year is restricted and would preclude any other IRA-to-IRA rollover for the year.

In order to give taxpayers a "fresh start" in applying the one IRA rollover/per year restriction, the IRS has recently announced that rollover distributions made at any time in 2014 will not preclude the taxpayer from making one (1) IRA-to-IRA tax-free rollover in year 2015, no matter when the prior 2014 rollover was made. In effect, you have until the end of this year to facilitate an IRA-to-IRA rollover without any concern that the transaction will preclude another such rollover in 2015.