

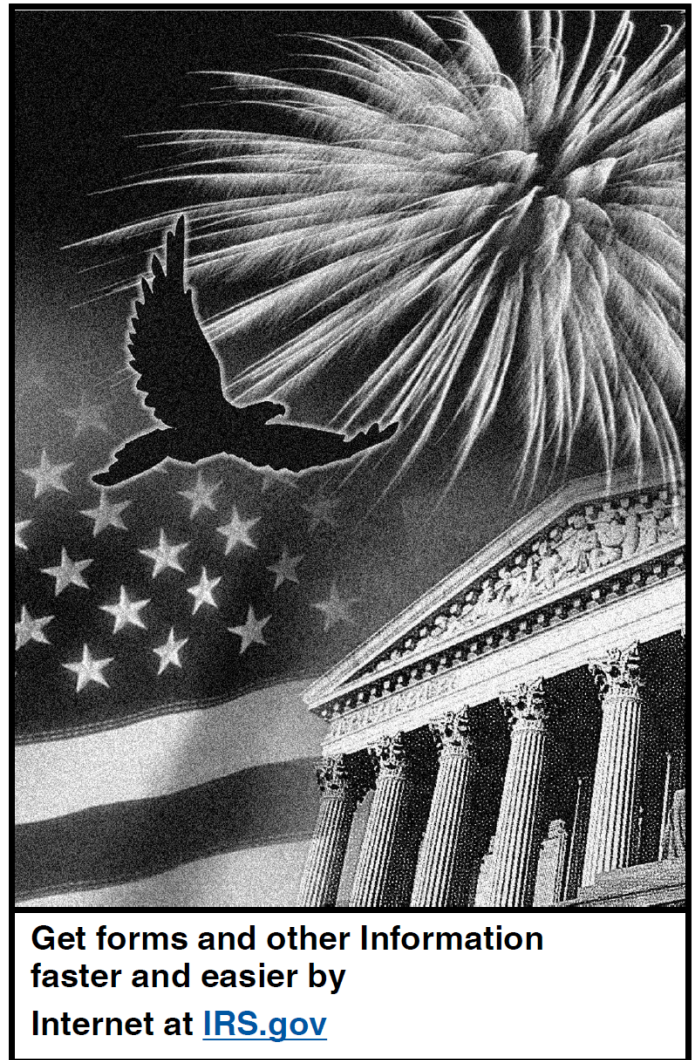
Publication 590

Individual Retirement Arrangements (IRAs)

For Use in Preparing

2013 Returns

Volume 2 of 5



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Treating it as your own. You will be considered to have chosen to treat the IRA as your own if:

- Contributions (including rollover contributions) are made to the inherited IRA, or
- You do not take the required minimum distribution for a year as a beneficiary of the IRA.

You will only be considered to have chosen to treat the IRA as your own if:

- You are the sole beneficiary of the IRA, and
- You have an unlimited right to withdraw amounts from it.

However, if you receive a distribution from your deceased spouse's IRA, you can roll that distribution over into your own IRA within the 60-day time limit, as long as the distribution is not a required distribution, even if you are not the sole beneficiary of your deceased spouse's IRA. For more information, see

When Must You Withdraw Assets? (Required Minimum Distributions), later.

Inherited from someone other than spouse. If you inherit a traditional IRA from anyone other than your deceased spouse, you cannot treat the inherited IRA as your own. This means that you cannot make any contributions to the IRA. It also means you cannot roll over any amounts into or out of the inherited IRA. However, you can make a trustee-to-trustee transfer as long as the IRA into which amounts are being moved is set up and maintained in the name of the deceased IRA owner for the benefit of you as beneficiary.

Like the original owner, you generally will not owe tax on the assets in the IRA until you receive distributions from it. You must begin receiving distributions from the IRA under the rules for distributions that apply to beneficiaries.

IRA with basis. If you inherit a traditional IRA from a person who had a basis in the IRA because of nondeductible contributions, that basis remains with the IRA. Unless you are

the decedent's spouse and choose to treat the IRA as your own, you cannot combine this basis with any basis you have in your own traditional IRA(s) or any basis in traditional IRA(s) you inherited from other decedents. If you take distributions from both an inherited IRA and your IRA, and each has basis, you must complete separate Forms 8606 to determine the taxable and nontaxable portions of those distributions.

Federal estate tax deduction. A beneficiary may be able to claim a deduction for estate tax resulting from certain distributions from a traditional IRA. The beneficiary can deduct the estate tax paid on any part of a distribution that is income in respect of a decedent. He or she can take the deduction for the tax year the income is reported. For information on claiming this deduction, see *Estate Tax Deduction* under *Other Tax Information* in Publication 559, *Survivors, Executors, and Administrators*.

Any taxable part of a distribution that is not income in respect of a decedent is a payment the beneficiary must include in income.

However, the beneficiary cannot take any estate tax deduction for this part.

A surviving spouse can roll over the distribution to another traditional IRA and avoid including it in income for the year received.

More information. For more information about rollovers, required distributions, and inherited IRAs, see:

- *Rollovers, later, under Can You Move Retirement Plan Assets,*
- *When Must You Withdraw Assets? (Required Minimum Distributions), later, and*
- *The discussion of IRA Beneficiaries, later, under When Must You Withdraw Assets? (Required Minimum Distributions).*

Can You Move Retirement Plan Assets?

You can transfer, tax free, assets (money or property) from other retirement programs (including traditional IRAs) to a traditional

IRA. You can make the following kinds of transfers.

- Transfers from one trustee to another.
- Rollovers.
- Transfers incident to a divorce.

This chapter discusses all three kinds of transfers.

Transfers to Roth IRAs. Under certain conditions, you can move assets from a traditional IRA or from a designated Roth account to a Roth IRA. For more information about these transfers, see *Converting From Any Traditional IRA Into a Roth IRA*, later in this chapter, and *Can You Move Amounts Into a Roth IRA?* in chapter 2.

Transfers to Roth IRAs from other retirement plans. Under certain conditions, you can move assets from a qualified retirement plan to a Roth IRA. For more information, see *Can You Move Amounts Into a Roth IRA?* in chapter 2.

Trustee-to-Trustee Transfer

A transfer of funds in your traditional IRA from one trustee directly to another, either at your request or at the trustee's request, is not a rollover. Because there is no distribution to you, the transfer is tax free. Because it is not a rollover, it is not affected by the 1-year waiting period required between rollovers. This waiting period is discussed later under *Rollover From One IRA Into Another*.

For information about direct transfers from retirement programs other than traditional IRAs, see *Direct rollover option*, later.

Rollovers

Generally, a rollover is a tax-free distribution to you of cash or other assets from one retirement plan that you contribute to another retirement plan. The contribution to the second retirement plan is called a “rollover contribution.”

Table 1-4. Rollover Chart

The following chart indicates the rollovers that are permitted between various types of plans.

Roll To									
Roll From		Roth IRA	Traditional IRA	SIMPLE IRA	SEP IRA	457(b) Plan	Qualified Plan ¹ (pre-tax)	403(b) Plan (pre-tax)	Designated Roth Account (401(k), 403(b) or 457(b) ²)
	Roth IRA	Yes	No	No	No	No	No	No	No
	Traditional IRA	Yes ³	Yes	No	Yes	Yes ⁴	Yes	Yes	No
	SIMPLE IRA	Yes ³ , after 2 years	Yes, after 2 years	Yes	Yes, after 2 years	Yes ⁴ , after 2 years	Yes, after 2 years	Yes, after 2 years	No
	SEP IRA	Yes ³	Yes	No	Yes	Yes ⁴	Yes	Yes	No
	457(b) Plan	Yes ³	Yes	No	Yes	Yes	Yes	Yes	Yes, ^{3, 5} after 12/31/10
	Qualified Plan ¹ (pre-tax)	Yes ³	Yes	No	Yes	Yes ⁴	Yes	Yes	Yes, ^{3, 5} after 9/27/10
	403(b) Plan (pre-tax)	Yes ³	Yes	No	Yes	Yes ⁴	Yes	Yes	Yes, ^{3, 5} after 9/27/10
	Designated Roth Account (401(k), 403(b) or 457(b) ²)	Yes	No	No	No	No	No	No	Yes, if a direct trustee-to-trustee transfer
¹ Qualified plans include, for example, profit-sharing, 401(k), money purchase, and defined benefit plans. ² Governmental 457(b) plans, after December 31, 2010. ³ Must include in income. ⁴ Must have separate accounts. ⁵ Must be an in-plan rollover.									

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Note. An amount rolled over tax free from one retirement plan to another is generally includible in income when it is distributed from the second plan.

Kinds of rollovers to a traditional IRA.

You can roll over amounts from the following plans into a traditional IRA:

- A traditional IRA,
- An employer's qualified retirement plan for its employees,
- A deferred compensation plan of a state or local government (section 457 plan), or
- A tax-sheltered annuity plan (section 403 plan).

Also, see Table 1-4 above.

Treatment of rollovers. You cannot deduct a rollover contribution, but you must report the rollover distribution on your tax return as discussed later under Reporting rollovers from IRAs and Reporting rollovers from employer plans.

Rollover notice. A written explanation of rollover treatment must be given to you by the plan (other than an IRA) making the distribution. See *Written explanation to recipients*, later, for more details.

Kinds of rollovers from a traditional IRA.

You may be able to roll over, tax free, a distribution from your traditional IRA into a qualified plan. These plans include the Federal Thrift Savings Fund (for federal employees), deferred compensation plans of state or local governments (section 457 plans), and tax-sheltered annuity plans (section 403(b) plans). The part of the distribution that you can roll over is the part that would otherwise be taxable (includible in your income). Qualified plans may, but are not required to, accept such rollovers.

Tax treatment of a rollover from a traditional IRA to an eligible retirement plan other than an IRA. Ordinarily, when you have basis in your IRAs, any distribution is considered to include both nontaxable and taxable amounts. Without a special rule, the

nontaxable portion of such a distribution could not be rolled over. However, a special rule treats a distribution you roll over into an eligible retirement plan as including only otherwise taxable amounts if the amount you either leave in your IRAs or do not roll over is at least equal to your basis. The effect of this special rule is to make the amount in your traditional IRAs that you can roll over to an eligible retirement plan as large as possible.

Eligible retirement plans. The following are considered eligible retirement plans.

- Individual retirement arrangements (IRAs).
- Qualified trusts.
- Qualified employee annuity plans under section 403(a).
- Deferred compensation plans of state and local governments (section 457 plans).
- Tax-sheltered annuities (section 403(b) annuities).

Time Limit for Making a Rollover Contribution

You generally must make the rollover contribution by the 60th day after the day you receive the distribution from your traditional IRA or your employer's plan.

Example. You received an eligible rollover distribution from your traditional IRA on June 30, 2013, that you intend to roll over to your 403(b) plan. To postpone including the distribution in your income, you must complete the rollover by August 29, 2013, the 60th day following June 30.

The IRS may waive the 60-day requirement where the failure to do so would be against equity or good conscience, such as in the event of a casualty, disaster, or other event beyond your reasonable control. For exceptions to the 60-day period, see *Automatic waiver*, *Other waivers*, and *Extension of rollover period*, later.

Rollovers completed after the 60day period. In the absence of a waiver, amounts not rolled over within the 60-day period do

not qualify for tax-free rollover treatment. You must treat them as a taxable distribution from either your IRA or your employer's plan. These amounts are taxable in the year distributed, even if the 60-day period expires in the next year. You may also have to pay a 10% additional tax on early distributions as discussed later under *Early Distributions*.

Unless there is a waiver or an extension of the 60-day rollover period, any contribution you make to your IRA more than 60 days after the distribution is a regular contribution, not a rollover contribution.

Example. You received a distribution in late December 2013 from a traditional IRA that you do not roll over into another traditional IRA within the 60-day limit. You do not qualify for a waiver. This distribution is taxable in 2013 even though the 60-day limit was not up until 2014.

Automatic waiver. The 60-day rollover requirement is waived automatically only if all of the following apply.

- The financial institution receives the funds on your behalf before the end of the 60-day rollover period.
- You followed all the procedures set by the financial institution for depositing the funds into an eligible retirement plan within the 60-day period (including giving instructions to deposit the funds into an eligible retirement plan).
- The funds are not deposited into an eligible retirement plan within the 60-day rollover period solely because of an error on the part of the financial institution.
- The funds are deposited into an eligible retirement plan within 1 year from the beginning of the 60-day rollover period.
- It would have been a valid rollover if the financial institution had deposited the funds as instructed.

Other waivers. If you do not qualify for an automatic waiver, you can apply to the IRS for a waiver of the 60-day rollover requirement. To apply for a waiver, you must submit a request for a letter ruling under the

appropriate IRS revenue procedure. This revenue procedure is generally published in the first Internal Revenue Bulletin of the year. You must also pay a user fee with the application.

In determining whether to grant a waiver, the IRS will consider all relevant facts and circumstances, including:

- Whether errors were made by the financial institution (other than those described under *Automatic waiver* above),
- Whether you were unable to complete the rollover due to death, disability, hospitalization, incarceration, restrictions imposed by a foreign country, or postal error,
- Whether you used the amount distributed (for example, in the case of payment by check, whether you cashed the check), and
- How much time has passed since the date of distribution.

Amount. The rules regarding the amount that can be rolled over within the 60-day time period also apply to the amount that can be deposited due to a waiver. For example, if you received \$6,000 from your IRA, the most that you can deposit into an eligible retirement plan due to a waiver is \$6,000.

Extension of rollover period. If an amount distributed to you from a traditional IRA or a qualified employer retirement plan is a frozen deposit at any time during the 60-day period allowed for a rollover, two special rules extend the rollover period.

- The period during which the amount is a frozen deposit is not counted in the 60-day period.
- The 60-day period cannot end earlier than 10 days after the deposit is no longer frozen.

Frozen deposit. This is any deposit that cannot be withdrawn from a financial institution because of either of the following reasons.

- The financial institution is bankrupt or insolvent.
- The state where the institution is located restricts withdrawals because one or more financial institutions in the state are (or are about to be) bankrupt or insolvent.

Rollover From One IRA Into Another

You can withdraw, tax free, all or part of the assets from one traditional IRA if you reinvest them within 60 days in the same or another traditional IRA. Because this is a rollover, you cannot deduct the amount that you reinvest in an IRA.



You may be able to treat a contribution made to one type of IRA as having been made to a different type of IRA. This is called recharacterizing the contribution. See Recharacterizations in this chapter for more information.

Waiting period between rollovers.

Generally, if you make a tax-free rollover of any part of a distribution from a traditional IRA, you cannot, within a 1-year period, make a tax-free rollover of any later

distribution from that same IRA. You also cannot make a tax-free rollover of any amount distributed, within the same 1-year period, from the IRA into which you made the tax-free rollover.

The 1-year period begins on the date you receive the IRA distribution, not on the date you roll it over into an IRA.

Example. You have two traditional IRAs, IRA-1 and IRA-2. You make a tax-free rollover of a distribution from IRA-1 into a new traditional IRA (IRA-3). You cannot, within 1 year of the distribution from IRA-1, make a tax-free rollover of any distribution from either IRA-1 or IRA-3 into another traditional IRA.

However, the rollover from IRA-1 into IRA-3 does not prevent you from making a tax-free rollover from IRA-2 into any other traditional IRA. This is because you have not, within the last year, rolled over, tax free, any distribution from IRA-2 or made a tax-free rollover into IRA-2.

Exception. There is an exception to the rule that amounts rolled over tax free into an IRA cannot be rolled over tax free again within the 1-year period beginning on the date of the original distribution. The exception applies to a distribution that meets all three of the following requirements.

1. It is made from a failed financial institution by the Federal Deposit Insurance Corporation (FDIC) as receiver for the institution.
2. It was not initiated by either the custodial institution or the depositor.
3. It was made because:
 - a. The custodial institution is insolvent, and
 - b. The receiver is unable to find a buyer for the institution.

The same property must be rolled over. If property is distributed to you from an IRA and you complete the rollover by contributing property to an IRA, your rollover is tax free

only if the property you contribute is the same property that was distributed to you.

Partial rollovers. If you withdraw assets from a traditional IRA, you can roll over part of the withdrawal tax free and keep the rest of it. The amount you keep will generally be taxable (except for the part that is a return of nondeductible contributions). The amount you keep may be subject to the 10% additional tax on early distributions discussed later under *What Acts Result in Penalties or Additional Taxes.*

Required distributions. Amounts that must be distributed during a particular year under the required distribution rules (discussed later) are not eligible for rollover treatment.

Inherited IRAs. If you inherit a traditional IRA from your spouse, you generally can roll it over, or you can choose to make the inherited IRA your own as discussed earlier under *What if You Inherit an IRA.*

Not inherited from spouse. If you inherit a traditional IRA from someone other than your spouse, you cannot roll it over or allow it to

receive a rollover contribution. You must withdraw the IRA assets within a certain period. For more information, see *When Must You Withdraw Assets? (Required Minimum Distributions)*, later.

Rollover of required distributions not allowed. If the owner had a required distribution in the year of his or her death, you cannot roll over such distribution. If you do not treat the IRA as your own, you cannot roll over any of the required distributions in years after your deceased spouse's death. Any rollover contributions you make to your own IRA of these required distributions are subject to the 6% tax discussed in *Tax on Excess Contributions*, later.

For more information on distribution rules after the owner's death, see *IRA Beneficiaries*, later.

Reporting rollovers from IRAs. Report any rollover from one traditional IRA to the same or another traditional IRA on Form 1040, lines 15a and 15b; Form 1040A, lines 11a and

11b; or Form 1040NR, lines 16a and 16b.

Enter the total amount of the distribution on Form 1040, line 15a; Form 1040A, line 11a; or Form 1040NR, line 16a. If the total amount on Form 1040, line 15a; Form 1040A, line 11a; or Form 1040NR, line 16a, was rolled over, enter zero on Form 1040, line 15b; Form 1040A, line 11b; or Form 1040NR, line 16b. If the total distribution was not rolled over, enter the taxable portion of the part that was not rolled over on Form 1040, line 15b; Form 1040A, line 11b; or Form 1040NR, line 16b. Put "Rollover" next to line 15b, Form 1040; line 11b, Form 1040A; or line 16b, Form 1040NR. See your tax return instructions.

If you rolled over the distribution into a qualified plan (other than an IRA) or you make the rollover in 2014, attach a statement explaining what you did.

For information on how to figure the taxable portion, see *Are Distributions Taxable*, later.

Rollover From Employer's Plan Into an IRA

You can roll over into a traditional IRA all or part of an eligible rollover distribution you receive from your (or your deceased spouse's):

- Employer's qualified pension, profit-sharing, or stock bonus plan;
- Annuity plan;
- Tax-sheltered annuity plan (section 403(b) plan); or
- Governmental deferred compensation plan (section 457 plan).

A qualified plan is one that meets the requirements of the Internal Revenue Code.

Eligible rollover distribution. Generally, an eligible rollover distribution is any distribution of all or part of the balance to your credit in a qualified retirement plan except the following.

1. A required minimum distribution (explained later under When Must You

Withdraw Assets? (Required Minimum Distributions)).

2. A hardship distribution.
3. Any of a series of substantially equal periodic distributions paid at least once a year over:
 - a. Your lifetime or life expectancy,
 - b. The lifetimes or life expectancies of you and your beneficiary, or
 - c. A period of 10 years or more.
4. Corrective distributions of excess contributions or excess deferrals, and any income allocable to the excess, or of excess annual additions and any allocable gains.
5. A loan treated as a distribution because it does not satisfy certain requirements either when made or later (such as upon default), unless the participant's accrued benefits are reduced (offset) to repay the loan.
6. Dividends on employer securities.

7. The cost of life insurance coverage.

Your rollover into a traditional IRA may include both amounts that would be taxable and amounts that would not be taxable if they were distributed to you, but not rolled over. To the extent the distribution is rolled over into a traditional IRA, it is not includible in your income.



Any nontaxable amounts that you roll over into your traditional IRA become part of your basis (cost) in your IRAs. To recover your basis when you take distributions from your IRA, you must complete Form 8606 for the year of the distribution. See Form 8606 under Distributions Fully or Partly Taxable, later.

Rollover by nonspouse beneficiary. If you are a designated beneficiary (other than a surviving spouse) of a deceased employee, you can roll over all or part of an eligible rollover distribution from one of the types of plans listed above into a traditional IRA. You must make the rollover by a direct trustee-to-trustee transfer into an inherited IRA.

You will determine your required minimum distributions in years after you make the rollover based on whether the employee died before his or her required beginning date for taking distributions from the plan. For more information, see *Distributions after the employee's death* under *Tax on Excess Accumulation* in Publication 575.

Written explanation to recipients. Before making an eligible rollover distribution, the administrator of a qualified retirement plan must provide you with a written explanation. It must tell you about all of the following.

- Your right to have the distribution paid tax free directly to a traditional IRA or another eligible retirement plan.
- The requirement to withhold tax from the distribution if it is not paid directly to a traditional IRA or another eligible retirement plan.
- The tax treatment of any part of the distribution that you roll over to a traditional IRA or another eligible

retirement plan within 60 days after you receive the distribution.

- Other qualified retirement plan rules, if they apply, including those for lump-sum distributions, alternate payees, and cash or deferred arrangements.
- How the plan receiving the distribution differs from the plan making the distribution in its restrictions and tax consequences.

The plan administrator must provide you with this written explanation no earlier than 90 days and no later than 30 days before the distribution is made.

However, you can choose to have a distribution made less than 30 days after the explanation is provided as long as both of the following requirements are met.

- You are given at least 30 days after the notice is provided to consider whether you want to elect a direct rollover.

- You are given information that clearly states that you have this 30-day period to make the decision.

Contact the plan administrator if you have any questions regarding this information.

Withholding requirement. Generally, if an eligible rollover distribution is paid directly to you, the payer must withhold 20% of it. This applies even if you plan to roll over the distribution to a traditional IRA. You can avoid withholding by choosing the direct rollover option, discussed later.

Exceptions. The payer does not have to withhold from an eligible rollover distribution paid to you if either of the following conditions apply.

- The distribution and all previous eligible rollover distributions you received during your tax year from the same plan (or, at the payer's option, from all your employer's plans) total less than \$200.
- The distribution consists solely of employer securities, plus cash of \$200 or less in lieu of fractional shares.



The amount withheld is part of the distribution. If you roll over less than the full amount of the distribution, you may have to include in your income the amount you do not roll over. However, you can make up the amount withheld with funds from other sources.

Other withholding rules. The 20% withholding requirement does not apply to distributions that are not eligible rollover distributions. However, other withholding rules apply to these distributions. The rules that apply depend on whether the distribution is a periodic distribution or a nonperiodic distribution. For either of these types of distributions, you can still choose not to have tax withheld. For more information, see Publication 575.

Direct rollover option. Your employer's qualified plan must give you the option to have any part of an eligible rollover distribution paid directly to a traditional IRA. The plan is not required to give you this option if your eligible rollover distributions are expected to total less than \$200 for the year.

Withholding. If you choose the direct rollover option, no tax is withheld from any part of the designated distribution that is directly paid to the trustee of the traditional IRA.

If any part is paid to you, the payer must withhold 20% of that part's taxable amount.

Choosing an option. Table 1-5 next may help you decide which distribution option to choose. Carefully compare the effects of each option.

Table 1-5. Comparison of Payment to You Versus Direct Rollover

Affected item	Result of a payment to you	Result of a direct rollover
withholding	The payer must withhold 20% of the taxable part.	There is no withholding.
additional tax	If you are under age 59 ¹ / ₂ , a 10% additional tax may apply to the taxable part (including an amount equal to the tax withheld) that is not rolled over.	There is no 10% additional tax. See Early Distributions , later.
when to report as income	Any taxable part (including the taxable part of any amount withheld) not rolled over is income to you in the year paid.	Any taxable part is not income to you until later distributed to you from the IRA.

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If you decide to roll over any part of a distribution, the direct rollover option will generally be to your advantage.

This is because you will not have 20% withholding or be subject to the 10% additional tax under that option.

If you have a lump-sum distribution and do not plan to roll over any part of it, the distribution may be eligible for special tax treatment that could lower your tax for the distribution year. In that case, you may want to see Publication 575 and Form 4972, Tax on Lump-Sum Distributions, and its instructions to determine whether your distribution qualifies for special tax treatment and, if so, to figure your tax under the special methods.

You can then compare any advantages from using Form 4972 to figure your tax on the lump-sum distribution with any advantages from rolling over all or part of the distribution. However, if you roll over any part of the lump-sum distribution, you cannot use the Form 4972 special tax treatment for any part of the distribution.

Contributions you made to your employer's plan. You can roll over a distribution of voluntary deductible employee contributions (DECs) you made to your employer's plan. Prior to January 1, 1987, employees could make and deduct these contributions to certain qualified employers' plans and government plans. These are not the same as an employee's elective contributions to a 401(k) plan, which are not deductible by the employee.

If you receive a distribution from your employer's qualified plan of any part of the balance of your DECs and the earnings from them, you can roll over any part of the distribution.

No waiting period between rollovers. The once-a-year limit on IRA-to-IRA rollovers does not apply to eligible rollover distributions from an employer plan. You can roll over more than one distribution from the same employer plan within a year.

IRA as a holding account (conduit IRA) for rollovers to other eligible plans. If you receive an eligible rollover distribution from

your employer's plan, you can roll over part or all of it into one or more conduit IRAs. You can later roll over those assets into a new employer's plan. You can use a traditional IRA as a conduit IRA. You can roll over part or all of the conduit IRA to a qualified plan, even if you make regular contributions to it or add funds from sources other than your employer's plan. However, if you make regular contributions to the conduit IRA or add funds from other sources, the qualified plan into which you move funds will not be eligible for any optional tax treatment for which it might have otherwise qualified.

Property and cash received in a distribution. If you receive both property and cash in an eligible rollover distribution, you can roll over part or all of the property, part or all of the cash, or any combination of the two that you choose.

The same property (or sales proceeds) must be rolled over. If you receive property in an eligible rollover distribution from a qualified retirement plan, you cannot keep the property and contribute cash to a

traditional IRA in place of the property. You must either roll over the property or sell it and roll over the proceeds, as explained next.

Sale of property received in a distribution from a qualified plan. Instead of rolling over a distribution of property other than cash, you can sell all or part of the property and roll over the amount you receive from the sale (the proceeds) into a traditional IRA. You cannot keep the property and substitute your own funds for property you received.

Example. You receive a total distribution from your employer's plan consisting of \$10,000 cash and \$15,000 worth of property. You decide to keep the property. You can roll over to a traditional IRA the \$10,000 cash received, but you cannot roll over an additional \$15,000 representing the value of the property you choose not to sell.

Treatment of gain or loss. If you sell the distributed property and roll over all the proceeds into a traditional IRA, no gain or loss is recognized. The sale proceeds (including any increase in value) are treated

as part of the distribution and are not included in your gross income.

Example. On September 6, Mike received a lump-sum distribution from his employer's retirement plan of \$50,000 in cash and \$50,000 in stock. The stock was not stock of his employer. On September 24, he sold the stock for \$60,000. On October 6, he rolled over \$110,000 in cash (\$50,000 from the original distribution and \$60,000 from the sale of stock). Mike does not include the \$10,000 gain from the sale of stock as part of his income because he rolled over the entire amount into a traditional IRA.

Note. Special rules may apply to distributions of employer securities. For more information, see *Figuring the Taxable Amount* under *Taxation of Nonperiodic Payments* in Publication 575.

Partial rollover. If you received both cash and property, or just property, but did not roll over the entire distribution, see *Rollovers* in Publication 575.

Life insurance contract. You cannot roll over a life insurance contract from a qualified plan into a traditional IRA.

Distributions received by a surviving spouse. If you receive an eligible rollover distribution (defined earlier) from your deceased spouse's eligible retirement plan (defined earlier), you can roll over part or all of it into a traditional IRA. You can also roll over all or any part of a distribution of deductible employee contributions (DECs).

Distributions under divorce or similar proceedings (alternate payees). If you are the spouse or former spouse of an employee and you receive a distribution from a qualified retirement plan as a result of divorce or similar proceedings, you may be able to roll over all or part of it into a traditional IRA. To qualify, the distribution must be:

- One that would have been an eligible rollover distribution (defined earlier) if it had been made to the employee, and
- Made under a qualified domestic relations order.

Qualified domestic relations order. A domestic relations order is a judgment, decree, or order (including approval of a property settlement agreement) that is issued under the domestic relations law of a state. A “qualified domestic relations order” gives to an alternate payee (a spouse, former spouse, child, or dependent of a participant in a retirement plan) the right to receive all or part of the benefits that would be payable to a participant under the plan. The order requires certain specific information, and it cannot alter the amount or form of the benefits of the plan.

Tax treatment if all of an eligible distribution is not rolled over. Any part of an eligible rollover distribution that you keep is taxable in the year you receive it. If you do not roll over any of it, special rules for lump-sum distributions may apply. See *Lump-Sum Distributions* under *Taxation of Nonperiodic Payments* in Publication 575. The 10% additional tax on early distributions, discussed later under *What Acts Result in Penalties or Additional Taxes*, does not apply.

Keogh plans and rollovers. If you are self-employed, you are generally treated as an employee for rollover purposes.

Consequently, if you receive an eligible rollover distribution from a Keogh plan (a qualified plan with at least one self-employed participant), you can roll over all or part of the distribution (including a lump-sum distribution) into a traditional IRA. For information on lump-sum distributions, see *Lump-Sum Distributions* under *Taxation of Nonperiodic Payments* in Publication 575.

More information. For more information about Keogh plans, see chapter 4 of Publication 560.

Distribution from a tax-sheltered annuity. If you receive an eligible rollover distribution from a tax-sheltered annuity plan (section 403(b) plan), you can roll it over into a traditional IRA.

Receipt of property other than money. If you receive property other than money, you can sell the property and roll over the proceeds as discussed earlier.

Rollover from bond purchase plan. If you redeem retirement bonds that were distributed to you under a qualified bond purchase plan, you can roll over tax free into a traditional IRA the part of the amount you receive that is more than your basis in the retirement bonds.

Reporting rollovers from employer plans.

Enter the total distribution (before income tax or other deductions were withheld) on Form 1040, line 16a; Form 1040A, line 12a; or Form 1040NR, line 17a. This amount should be shown in box 1 of Form 1099-R. From this amount, subtract any contributions (usually shown in box 5 of Form 1099-R) that were taxable to you when made. From that result, subtract the amount that was rolled over either directly or within 60 days of receiving the distribution. Enter the remaining amount, even if zero, on Form 1040, line 16b; Form 1040A, line 12b; or Form 1040NR, line 17b. Also, enter "Rollover" next to line 16b on Form 1040; line 12b of Form 1040A; or line 17b of Form 1040NR.

Rollover of Exxon Valdez Settlement Income

If you are a qualified taxpayer (defined next) and you received qualified settlement income (defined below), you can contribute all or part of the amount received to an eligible retirement plan which includes a traditional IRA. The amount contributed cannot exceed \$100,000 (reduced by the amount of qualified settlement income contributed to an eligible retirement plan in prior tax years) or the amount of qualified settlement income received during the tax year. Contributions for the year can be made until the due date for filing your return, not including extensions.

Qualified settlement income that you contribute to a traditional IRA will be treated as having been rolled over in a direct trustee-to-trustee transfer within 60 days of the distribution. The amount contributed is not included in your income at the time of the contributions and is not considered to be investment in the contract. Also, the 1-year

waiting period between rollovers does not apply.

Qualified taxpayer. You are a qualified taxpayer if you are:

- A plaintiff in the civil action *In re Exxon Valdez*, No. 89-095-CV (HRH) (Consolidated) (D. Alaska), or
- The beneficiary of the estate of a plaintiff who acquired the right to receive qualified settlement income and who is the spouse or immediate relative of that plaintiff.

Qualified settlement income. Qualified settlement income is any interest and punitive damage awards which are:

- Otherwise includible in income, and
- Received in connection with the civil action *In re Exxon Valdez*, No. 89-095-CV (HRH) (Consolidated) (D. Alaska) (whether pre- or post-judgment and whether related to a settlement or judgment).

Qualified settlement income can be received as periodic payments or as a lump sum. See

Miscellaneous Income in Publication 525, *Taxable and Nontaxable Income*, for information on how to report qualified settlement income.

Transfers Incident To Divorce

If an interest in a traditional IRA is transferred from your spouse or former spouse to you by a divorce or separate maintenance decree or a written document related to such a decree, the interest in the IRA, starting from the date of the transfer, is treated as your IRA. The transfer is tax free. For information about transfers of interests in employer plans, see *Distributions under divorce or similar proceedings (alternate payees)* under *Rollover From Employer's Plan Into an IRA*, earlier.

Transfer methods. There are two commonly used methods of transferring IRA assets to a spouse or former spouse. The methods are:

- Changing the name on the IRA, and
- Making a direct transfer of IRA assets.

Changing the name on the IRA. If all the assets are to be transferred, you can make the transfer by changing the name on the IRA from your name to the name of your spouse or former spouse.

Direct transfer. Under this method, you direct the trustee of the traditional IRA to transfer the affected assets directly to the trustee of a new or existing traditional IRA set up in the name of your spouse or former spouse.

If your spouse or former spouse is allowed to keep his or her portion of the IRA assets in your existing IRA, you can direct the trustee to transfer the assets you are permitted to keep directly to a new or existing traditional IRA set up in your name. The name on the IRA containing your spouse's or former spouse's portion of the assets would then be changed to show his or her ownership.



If the transfer results in a change in the basis of the traditional IRA of either spouse, both spouses must file Form 8606 and follow the directions in the instructions for that form.

Converting From Any Traditional IRA Into a Roth IRA

Allowable conversions. You can withdraw all or part of the assets from a traditional IRA and reinvest them (within 60 days) in a Roth IRA. The amount that you withdraw and timely contribute (convert) to the Roth IRA is called a conversion contribution. If properly (and timely) rolled over, the 10% additional tax on early distributions will not apply.

However, a part or all of the distribution from your traditional IRA may be included in gross income and subjected to ordinary income tax.

You must roll over into the Roth IRA the same property you received from the traditional IRA. You can roll over part of the withdrawal into a Roth IRA and keep the rest of it. The amount you keep will generally be taxable (except for the part that is a return of nondeductible contributions) and may be subject to the 10% additional tax on early distributions. See *When Can You Withdraw or Use Assets*, later, for more information on distributions from traditional IRAs and *Early*

Distributions, later, for more information on the tax on early distributions.

Periodic distributions. If you started taking substantially equal periodic payments from a traditional IRA, you can convert the amounts in the traditional IRA to a Roth IRA and then continue the periodic payments. The 10% additional tax on early distributions will not apply even if the distributions are not qualified distributions (as long as they are part of a series of substantially equal periodic payments).

Required distributions. You cannot convert amounts that must be distributed from your traditional IRA for a particular year (including the calendar year in which you reach age 70½) under the required distribution rules (discussed later in this chapter).

Income. You must include in your gross income distributions from a traditional IRA that you would have had to include in income if you had not converted them into a Roth IRA. These amounts are normally included in income on your return for the year that you

converted them from a traditional IRA to a Roth IRA.

You do not include in gross income any part of a distribution from a traditional IRA that is a return of your basis, as discussed under *Are Distributions Taxable*, later in this chapter.



If you must include any amount in your gross income, you may have to increase your withholding or make estimated tax payments. See Publication 505, Tax Withholding and Estimated Tax.

Recharacterizations

You may be able to treat a contribution made to one type of IRA as having been made to a different type of IRA. This is called recharacterizing the contribution.

To recharacterize a contribution, you generally must have the contribution transferred from the first IRA (the one to which it was made) to the second IRA in a trustee-to-trustee transfer. If the transfer is made by the due date (including extensions) for your tax return for the tax year during

which the contribution was made, you can elect to treat the contribution as having been originally made to the second IRA instead of to the first IRA. If you recharacterize your contribution, you must do all three of the following.

- Include in the transfer any net income allocable to the contribution. If there was a loss, the net income you must transfer may be a negative amount.
- Report the recharacterization on your tax return for the year during which the contribution was made.
- Treat the contribution as having been made to the second IRA on the date that it was actually made to the first IRA.

No deduction allowed. You cannot deduct the contribution to the first IRA. Any net income you transfer with the recharacterized contribution is treated as earned in the second IRA. The contribution will not be treated as having been made to the second IRA to the extent any deduction was allowed for the contribution to the first IRA.

Conversion by rollover from traditional to Roth IRA. For recharacterization purposes, if you receive a distribution from a traditional IRA in one tax year and roll it over into a Roth IRA in the next year, but still within 60 days of the distribution from the traditional IRA, treat it as a contribution to the Roth IRA in the year of the distribution from the traditional IRA.

Effect of previous tax-free transfers. If an amount has been moved from one IRA to another in a tax-free transfer, such as a rollover, you generally cannot recharacterize the amount that was transferred. However, see *Traditional IRA mistakenly moved to SIMPLE IRA* below.

Recharacterizing to a SEP IRA or SIMPLE IRA. Roth IRA conversion contributions from a SEP IRA or SIMPLE IRA can be recharacterized to a SEP IRA or SIMPLE IRA (including the original SEP IRA or SIMPLE IRA).

Traditional IRA mistakenly moved to SIMPLE IRA. If you mistakenly roll over or transfer an amount from a traditional IRA to a

SIMPLE IRA, you can later recharacterize the amount as a contribution to another traditional IRA.

Recharacterizing excess contributions.

You can recharacterize only actual contributions. If you are applying excess contributions for prior years as current contributions, you can recharacterize them only if the recharacterization would still be timely with respect to the tax year for which the applied contributions were actually made.

Example. You contributed more than you were entitled to in 2013. You cannot recharacterize the excess contributions you made in 2013 after April 15, 2014, because contributions after that date are no longer timely for 2013.

Recharacterizing employer contributions.

You cannot recharacterize employer contributions (including elective deferrals) under a SEP or SIMPLE plan as contributions to another IRA. SEPs are discussed in chapter 2 of Publication 560. SIMPLE plans are discussed in chapter 3.

Recharacterization not counted as rollover. The recharacterization of a contribution is not treated as a rollover for purposes of the 1-year waiting period described earlier in this chapter under *Rollover From One IRA Into Another*. This is true even if the contribution would have been treated as a rollover contribution by the second IRA if it had been made directly to the second IRA rather than as a result of a recharacterization of a contribution to the first IRA.

Reconversions

You cannot convert and reconvert an amount during the same tax year or, if later, during the 30-day period following a recharacterization. If you reconvert during either of these periods, it will be a failed conversion.

Worksheet 1-3. **Determining the Amount of Net Income Due To an IRA Contribution and Total Amount To Be Recharacterized**

Keep for Your Records 

1.	Enter the amount of your IRA contribution for 2014 to be recharacterized	1.	_____
2.	Enter the fair market value of the IRA immediately prior to the recharacterization (include any distributions, transfers, or recharacterization made while the contribution was in the account)	2.	_____
3.	Enter the fair market value of the IRA immediately prior to the time the contribution being recharacterized was made, including the amount of such contribution and any other contributions, transfers, or recharacterizations made while the contribution was in the account	3.	_____
4.	Subtract line 3 from line 2	4.	_____
5.	Divide line 4 by line 3. Enter the result as a decimal (rounded to at least three places)	5.	_____
6.	Multiply line 1 by line 5. This is the net income attributable to the contribution to be recharacterized	6.	_____
7.	Add lines 1 and 6. This is the amount of the IRA contribution plus the net income attributable to it to be recharacterized	7.	_____

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Example. If you convert an amount from a traditional IRA to a Roth IRA and then transfer that amount back to a traditional IRA in a recharacterization in the same year, you may not reconvert that amount from the traditional IRA to a Roth IRA before:

- The beginning of the year following the year in which the amount was converted to a Roth IRA or, if later,
- The end of the 30-day period beginning on the day on which you transfer the amount from the Roth IRA back to a traditional IRA in a recharacterization.

How Do You Recharacterize a Contribution?

To recharacterize a contribution, you must notify both the trustee of the first IRA (the one to which the contribution was actually made) and the trustee of the second IRA (the one to which the contribution is being moved) that you have elected to treat the contribution as having been made to the second IRA rather than the first. You must make the notifications by the date of the transfer. Only

one notification is required if both IRAs are maintained by the same trustee. The notification(s) must include all of the following information.

- The type and amount of the contribution to the first IRA that is to be recharacterized.
- The date on which the contribution was made to the first IRA and the year for which it was made.
- A direction to the trustee of the first IRA to transfer in a trustee-to-trustee transfer the amount of the contribution and any net income (or loss) allocable to the contribution to the trustee of the second IRA.
- The name of the trustee of the first IRA and the name of the trustee of the second IRA.
- Any additional information needed to make the transfer.

In most cases, the net income you must transfer is determined by your IRA trustee or

custodian. If you need to determine the applicable net income on IRA contributions made after 2013 that are recharacterized, use Worksheet 1-3 above. See Regulations section 1.408A-5 for more information.

Example. On April 1, 2014, when her Roth IRA is worth \$80,000, Allison makes a \$160,000 conversion contribution to the Roth IRA. Subsequently, Allison requests that the \$160,000 be recharacterized to a traditional IRA. Pursuant to this request, on April 1, 2015, when the IRA is worth \$225,000, the Roth IRA trustee transfers to a traditional IRA the \$160,000 plus allocable net income. No other contributions have been made to the Roth IRA and no distributions have been made.

The adjusted opening balance is \$240,000 (\$80,000 + \$160,000) and the adjusted closing balance is \$225,000. Thus the net income allocable to the \$160,000 is (\$10,000). See lines 1 through 6 of Worksheet 1-3. Example—Illustrated, later, for the calculation. Therefore, in order to recharacterize the April 1, 2014, \$160,000

conversion contribution on April 1, 2015, the Roth IRA trustee must transfer from Allison's Roth IRA to her traditional IRA \$150,000 (\$160,000 – \$10,000). This is shown on line 7 of Worksheet 1-3. Example—Illustrated, later.

Timing. The election to recharacterize and the transfer must both take place on or before the due date (including extensions) for filing your tax return for the tax year for which the contribution was made to the first IRA.

Extension. Ordinarily you must choose to recharacterize a contribution by the due date of the return or the due date plus extensions. However, if you miss this deadline, you can still recharacterize a contribution if:

- Your return was timely filed for the year the choice should have been made, and
- You take appropriate corrective action within 6 months from the due date of your return excluding extensions. For returns due April 15, 2014, this period ends on October 15, 2014. When the date for

doing any act for tax purposes falls on a Saturday, Sunday, or legal holiday, the due date is delayed until the next business day.

Appropriate corrective action consists of:

- Notifying the trustee(s) of your intent to recharacterize,
- Providing the trustee with all necessary information, and
- Having the trustee transfer the contribution.

Once this is done, you must amend your return to show the recharacterization. You have until the regular due date for amending a return to do this. Report the recharacterization on the amended return and write "Filed pursuant to section 301.9100-2" on the return. File the amended return at the same address you filed the original return.

Decedent. The election to recharacterize can be made on behalf of a deceased IRA owner by the executor, administrator, or other

person responsible for filing the decedent's final income tax return.


Election cannot be changed. After the transfer has taken place, you cannot change your election to recharacterize.

Same trustee. Recharacterizations made with the same trustee can be made by redesignating the first IRA as the second IRA, rather than transferring the account balance.

Reporting a Recharacterization

If you elect to recharacterize a contribution to one IRA as a contribution to another IRA, you must report the recharacterization on your tax return as directed by Form 8606 and its instructions. You must treat the contribution as having been made to the second IRA.

Worksheet 1-3. **Example—Illustrated**

Keep for Your Records 

1.	Enter the amount of your IRA contribution for 2014 to be recharacterized	1.	160,000
2.	Enter the fair market value of the IRA immediately prior to the recharacterization (include any distributions, transfers, or recharacterization made while the contribution was in the account)	2.	225,000
3.	Enter the fair market value of the IRA immediately prior to the time the contribution being recharacterized was made, including the amount of such contribution and any other contributions, transfers, or recharacterizations made while the contribution was in the account	3.	240,000
4.	Subtract line 3 from line 2	4.	(15,000)
5.	Divide line 4 by line 3. Enter the result as a decimal (rounded to at least three places)	5.	(.0625)
6.	Multiply line 1 by line 5. This is the net income attributable to the contribution to be recharacterized	6.	(10,000)
7.	Add lines 1 and 6. This is the amount of the IRA contribution plus the net income attributable to it to be recharacterized	7.	150,000

Worksheet 1-4. **Determining the Amount of Net Income Due
To an IRA Contribution and Total Amount To
Be Withdrawn From the IRA**

Keep for Your Records 

1.	Enter the amount of your IRA contribution for 2014 to be returned to you	1.	_____
2.	Enter the fair market value of the IRA immediately prior to the removal of the contribution, plus the amount of any distributions, transfers, and recharacterizations made while the contribution was in the IRA	2.	_____
3.	Enter the fair market value of the IRA immediately before the contribution was made, plus the amount of such contribution and any other contributions, transfers, and recharacterizations made while the contribution was in the IRA	3.	_____
4.	Subtract line 3 from line 2	4.	_____
5.	Divide line 4 by line 3. Enter the result as a decimal (rounded to at least three places)	5.	_____
6.	Multiply line 1 by line 5. This is the net income attributable to the contribution to be returned	6.	_____
7.	Add lines 1 and 6. This is the amount of the IRA contribution plus the net income attributable to it to be returned to you	7.	_____

Example. On June 1, 2013, Christine properly and timely converted her traditional IRA to a Roth IRA. In December, Christine decided to recharacterize the conversion and move the funds to a traditional IRA. In January 2014, to make the necessary adjustment to remove the conversion, Christine opened a traditional IRA with the same trustee. Also in January 2014, she instructed the trustee of the Roth IRA to make a trustee-to-trustee transfer of the conversion contribution made to the Roth IRA (including net income allocable to it since the conversion) to the new traditional IRA. She also notified the trustee that she was electing to recharacterize the contribution to the Roth IRA and treat it as if it had been contributed to the new traditional IRA. Because of the recharacterization, Christine has no taxable income from the conversion to report for 2013, and the resulting rollover to a traditional IRA is not treated as a rollover for purposes of the one-rollover-per-year rule.

More than one IRA. If you have more than one IRA, figure the amount to be

recharacterized only on the account from which you withdraw the contribution.

When Can You Withdraw or Use Assets?

You can withdraw or use your traditional IRA assets at any time. However, a 10% additional tax generally applies if you withdraw or use IRA assets before you are age 59½.

This is explained under Age 59½ Rule under *Early Distributions*, later.

You generally can make a tax-free withdrawal of contributions if you do it before the due date for filing your tax return for the year in which you made them. This means that, even if you are under age 59½, the 10% additional tax may not apply. These withdrawals are explained next.

Contributions Returned Before Due Date of Return

If you made IRA contributions in 2013, you can withdraw them tax free by the due date

of your return. If you have an extension of time to file your return, you can withdraw them tax free by the extended due date. You can do this if, for each contribution you withdraw, both of the following conditions apply.

- You did not take a deduction for the contribution.
- You withdraw any interest or other income earned on the contribution. You can take into account any loss on the contribution while it was in the IRA when calculating the amount that must be withdrawn. If there was a loss, the net income earned on the contribution may be a negative amount.

Note. If you timely filed your 2013 tax return without withdrawing a contribution that you made in 2013, you can still have the contribution returned to you within 6 months of the due date of your 2013 tax return, excluding extensions. If you do, file an amended return with “Filed pursuant to section 301.9100-2” written at the top. Report any related earnings on the amended

return and include an explanation of the withdrawal. Make any other necessary changes on the amended return (for example, if you reported the contributions as excess contributions on your original return, include an amended Form 5329 reflecting that the withdrawn contributions are no longer treated as having been contributed).

In most cases, the net income you must withdraw is determined by the IRA trustee or custodian. If you need to determine the applicable net income on IRA contributions made after 2013 that are returned to you, use Worksheet 1-4 above. See Regulations section 1.408-11 for more information.

Example. On May 2, 2014, when her IRA is worth \$4,800, Cathy makes a \$1,600 regular contribution to her IRA. Cathy requests that \$400 of the May 2, 2014 contribution be returned to her. On February 2, 2015, when the IRA is worth \$7,600, the IRA trustee distributes to Cathy the \$400 plus net income attributable to the contribution. No other contributions have been made to the IRA for 2014 and no distributions have been made.

The adjusted opening balance is \$6,400 (\$4,800 + \$1,600) and the adjusted closing balance is \$7,600. The net income due to the May 2, 2014, contribution is \$75 ($\$400 \times (\$7,600 - \$6,400) \div \$6,400$). Therefore, the total to be distributed on February 2, 2015, is \$475. This is shown on Worksheet 1-4.
Example—Illustrated, later.

Last-in first-out rule. If you made more than one regular contribution for the year, your last contribution is considered to be the one that is returned to you first.

Earnings Includible in Income

You must include in income any earnings on the contributions you withdraw. Include the earnings in income for the year in which you made the contributions, not the year in which you withdraw them.



Generally, except for any part of a withdrawal that is a return of nondeductible contributions (basis), any withdrawal of your contributions after the due date (or extended due date) of your return will be treated as a taxable

distribution. Excess contributions can also be recovered tax free as discussed under What Acts Result in Penalties or Additional Taxes, later.

Early Distributions Tax

The 10% additional tax on distributions made before you reach age 59½ does not apply to these tax-free withdrawals of your contributions. However, the distribution of interest or other income must be reported on Form 5329 and, unless the distribution qualifies as an exception to the age 59½ rule, it will be subject to this tax. See Early Distributions under *What Acts Result in Penalties or Additional Taxes*, later.

Excess Contributions Tax

If any part of these contributions is an excess contribution for 2012, it is subject to a 6% excise tax. You will not have to pay the 6% tax if any 2012 excess contribution was withdrawn by April 15, 2013 (plus extensions), and if any 2013 excess contribution is withdrawn by April 15, 2014 (plus extensions). See Excess Contributions

under *What Acts Result in Penalties or Additional Taxes*, later.



You may be able to treat a contribution made to one type of IRA as having been made to a different type of IRA. This is called recharacterizing the contribution. See Recharacterizations, earlier, for more information.

When Must You Withdraw Assets? (Required Minimum Distributions)

You cannot keep funds in a traditional IRA indefinitely. Eventually they must be distributed. If there are no distributions, or if the distributions are not large enough, you may have to pay a 50% excise tax on the amount not distributed as required. See *Excess Accumulations (Insufficient Distributions)*, later under *What Acts Result in Penalties or Additional Taxes*. The requirements for distributing IRA funds differ, depending on whether you are the IRA owner or the beneficiary of a decedent's IRA.

Required minimum distribution. The amount that must be distributed each year is referred to as the required minimum distribution.

Distributions not eligible for rollover.

Amounts that must be distributed (required minimum distributions) during a particular year are not eligible for rollover treatment.

Note. A qualified charitable distribution will count to-wards your required minimum distribution. See *Qualified charitable distributions* under *Are Distributions Taxable*, later.

IRA Owners

If you are the owner of a traditional IRA, you must generally start receiving distributions from your IRA by April 1 of the year following the year in which you reach age 70½. April 1 of the year following the year in which you reach age 70½ is referred to as the required beginning date.

Distributions by the required beginning date. You must receive at least a minimum

amount for each year starting with the year you reach age 70½ (your 70½ year). If you do not (or did not) receive that minimum amount in your 70½ year, then you must receive distributions for your 70½ year by April 1 of the next year.

If an IRA owner dies after reaching age 70½, but before April 1 of the next year, no minimum distribution is required because death occurred before the required beginning date.



Even if you begin receiving distributions before you reach age 70½, you must begin calculating and receiving required minimum distributions by your required beginning date.

More than minimum received. If, in any year, you receive more than the required minimum distribution for that year, you will not receive credit for the additional amount when determining the minimum required distributions for future years. This does not mean that you do not reduce your IRA account balance. It means that if you receive more than your required minimum

distribution in one year, you cannot treat the excess (the amount that is more than the required minimum distribution) as part of your required minimum distribution for any later year. However, any amount distributed in your 70½ year will be credited toward the amount that must be distributed by April 1 of the following year.

Distributions after the required beginning date. The required minimum distribution for any year after the year you turn 70½ must be made by December 31 of that later year.

Example. You reach age 70½ on August 20, 2013. For 2013, you must receive the required minimum distribution from your IRA by April 1, 2014. You must receive the required minimum distribution for 2014 by December 31, 2014.



If you do not receive your required minimum distribution for 2013 until 2014, both your 2013 and your 2014 distributions will be included in income on your 2014 return.

Distributions from individual retirement account. If you are the owner of a traditional IRA that is an individual retirement account, you or your trustee must figure the required minimum distribution for each year. See *Figuring the Owner's Required Minimum Distribution* below.

Distributions from individual retirement annuities. If your traditional IRA is an individual retirement annuity, special rules apply to figuring the required minimum distribution. For more information on rules for annuities, see Regulations section 1.401(a)(9)-6. These regulations can be read in many libraries, IRS offices, and online at IRS.gov.

Change in marital status. For purposes of figuring your required minimum distribution, your marital status is determined as of January 1 of each year. If your spouse is a beneficiary of your IRA on January 1, he or she remains a beneficiary for the entire year even if you get divorced or your spouse dies during the year. For purposes of determining your distribution period, a change in

beneficiary is effective in the year following the year of death or divorce.

Change of beneficiary. If your spouse is the sole beneficiary of your IRA, and he or she dies before you, your spouse will not fail to be your sole beneficiary for the year that he or she died solely because someone other than your spouse is named a beneficiary for the rest of that year. However, if you get divorced during the year and change the beneficiary designation on the IRA during that same year, your former spouse will not be treated as the sole beneficiary for that year.

Figuring the Owner's Required Minimum Distribution

Figure your required minimum distribution for each year by dividing the IRA account balance (defined next) as of the close of business on December 31 of the preceding year by the applicable distribution period or life expectancy. Tables showing distribution periods and life expectancies are found in Appendix C and are discussed later.

IRA account balance. The IRA account balance is the amount in the IRA at the end of the year preceding the year for which the required minimum distribution is being figured.

Contributions. Contributions increase the account balance in the year they are made. If a contribution for last year is not made until after December 31 of last year, it increases the account balance for this year, but not for last year. Disregard contributions made after December 31 of last year in determining your required minimum distribution for this year.

Outstanding rollovers and recharacterizations. The IRA account balance is adjusted by outstanding rollovers and recharacterizations of Roth IRA conversions that are not in any account at the end of the preceding year.

For a rollover from a qualified plan or another IRA that was not in any account at the end of the preceding year, increase the account balance of the receiving IRA by the rollover amount valued as of the date of receipt.

If a conversion contribution is contributed to a Roth IRA and that amount (plus net income allocable to it) is transferred to another IRA in a subsequent year as a recharacterized contribution, increase the account balance of the receiving IRA by the recharacterized contribution (plus allocable net income) for the year in which the conversion occurred.

Distributions. Distributions reduce the account balance in the year they are made. A distribution for last year made after December 31 of last year reduces the account balance for this year, but not for last year. Disregard distributions made after December 31 of last year in determining your required minimum distribution for this year.

Example 1. Laura was born on October 1, 1942. She reaches age 70½ in 2013. Her required beginning date is April 1, 2014. As of December 31, 2012, her IRA account balance was \$26,500. No rollover or recharacterization amounts were outstanding. Using Table III in Appendix C, the applicable distribution period for someone her age (71) is 26.5 years. Her required minimum

distribution for 2013 is \$1,000 ($\$26,500 \div 26.5$). That amount is distributed to her on April 1, 2014.

Example 2. Joe, born October 1, 1942, reached 70½ in 2013. His wife (his beneficiary) turned 56 in September 2013. He must begin receiving distributions by April 1, 2014. Joe's IRA account balance as of December 31, 2012, is \$30,100. Because Joe's wife is more than 10 years younger than Joe and is the sole beneficiary of his IRA, Joe uses Table II in Appendix C. Based on their ages at year end (December 31, 2013), the joint life expectancy for Joe (age 71) and his wife (age 56) is 30.1 years. The required minimum distribution for 2013, Joe's first distribution year, is \$1,000 ($\$30,100 \div 30.1$). This amount is distributed to Joe on April 1, 2014.

Distribution period. This is the maximum number of years over which you are allowed to take distributions from the IRA. The period to use for 2013 is listed next to your age as of your birthday in 2013 in Table III in Appendix C.

Life expectancy. If you must use Table I, your life expectancy for 2014 is listed in the table next to your age as of your birthday in 2014. If you use Table II, your life expectancy is listed where the row or column containing your age as of your birthday in 2014 intersects with the row or column containing your spouse's age as of his or her birthday in 2014. Both Table I and Table II are in Appendix C.

Distributions during your lifetime.

Required minimum distributions during your lifetime are based on a distribution period that generally is determined using Table III (Uniform Lifetime) in Appendix C. However, if the sole beneficiary of your IRA is your spouse who is more than 10 years younger than you, see *Sole beneficiary spouse who is more than 10 years younger* below.

To figure the required minimum distribution for 2014, divide your account balance at the end of 2013 by the distribution period from the table. This is the distribution period listed next to your age (as of your birthday in 2014) in Table III in Appendix C, unless the sole

beneficiary of your IRA is your spouse who is more than 10 years younger than you.

Example. You own a traditional IRA. Your account balance at the end of 2013 was \$100,000. You are married and your spouse, who is the sole beneficiary of your IRA, is 6 years younger than you. You turn 75 years old in 2014. You use Table III. Your distribution period is 22.9. Your required minimum distribution for 2014 would be \$4,367 ($\$100,000 \div 22.9$).

Sole beneficiary spouse who is more than 10 years younger. If the sole beneficiary of your IRA is your spouse and your spouse is more than 10 years younger than you, use the life expectancy from Table II (Joint Life and Last Survivor Expectancy) in Appendix C.

The life expectancy to use is the joint life and last survivor expectancy listed where the row or column containing your age as of your birthday in 2014 intersects with the row or column containing your spouse's age as of his or her birthday in 2014.

You figure your required minimum distribution for 2014 by dividing your account balance at the end of 2013 by the life expectancy from Table II (Joint Life and Last Survivor Expectancy) in Appendix C.

Example. You own a traditional IRA. Your account balance at the end of 2013 was \$100,000. You are married and your spouse, who is the sole beneficiary of your IRA, is 11 years younger than you. You turn 75 in 2014 and your spouse turns 64. You use Table II. Your joint life and last survivor expectancy is 23.6. Your required minimum distribution for 2014 would be \$4,237 ($\$100,000 \div 23.6$).

Distributions in the year of the owner's death. The required minimum distribution for the year of the owner's death depends on whether the owner died before the required beginning date, defined earlier.

If the owner died before the required beginning date, there is no required minimum distribution in the year of the owner's death. For years after the year of the owner's death, see Owner Died Before Required Beginning Date, later, under *IRA Beneficiaries*.

If the owner died on or after the required beginning date, the IRA beneficiaries are responsible for figuring and distributing the owner's required minimum distribution in the year of death. The owner's required minimum distribution for the year of death generally is based on Table III (Uniform Lifetime) in Appendix C. However, if the sole beneficiary of the IRA is the owner's spouse who is more than 10 years younger than the owner, use the life expectancy from Table II (Joint Life and Last Survivor Expectancy).

Note. You figure the required minimum distribution for the year in which an IRA owner dies as if the owner lived for the entire year.

IRA Beneficiaries

The rules for determining required minimum distributions for beneficiaries depend on the following.

- The beneficiary is the surviving spouse.
- The beneficiary is an individual (other than the surviving spouse).

- The beneficiary is not an individual (for example, the beneficiary is the owner's estate). (But see Trust as beneficiary, later, for a discussion about treating trust beneficiaries as designated beneficiaries.)
- The IRA owner died before the required beginning date, or died on or after the required beginning date.

The following paragraphs explain the rules for required minimum distributions and beneficiaries.



If distributions to the beneficiary from an inherited traditional IRA are less than the required minimum distribution for the year, discussed in this chapter under When Must You Withdraw Assets? (Required Minimum Distributions), you may have to pay a 50% excise tax for that year on the amount not distributed as required. For details, see Excess Accumulations (Insufficient Distributions) under What Acts Result in Penalties or Additional Taxes? later in this chapter.

Surviving spouse. If you are the surviving spouse who is the sole beneficiary of your deceased spouse's IRA, you may elect to be treated as the owner and not as the beneficiary. If you elect to be treated as the owner, you determine the required minimum distribution (if any) as if you were the owner beginning with the year you elect or are deemed to be the owner. For details, see *Inherited from spouse* under *What if You Inherit an IRA*, earlier in this chapter.

Note. If you become the owner in the year your deceased spouse died, do not determine the required minimum distribution for that year using your life; rather, you must take the deceased owner's required minimum distribution for that year (to the extent it was not already distributed to the owner before his or her death).



You can never make a rollover contribution of a required minimum distribution. Any rollover contribution is subject to the 6% tax on excess contributions, as discussed in Rollover of required distributions not allowed, earlier.



For any year after the owner's death, where a surviving spouse is the sole designated beneficiary of the account and he or she fails to take a required minimum distribution (if one is required) by December 31 under the rules discussed below for beneficiaries, he or she will be deemed the owner of the IRA. For details, see Inherited from spouse under What if You Inherit an IRA, earlier in this chapter.

Date the designated beneficiary is determined. Generally, the designated beneficiary is determined on September 30 of the calendar year following the calendar year of the IRA owner's death. In order to be a designated beneficiary, an individual must be a beneficiary as of the date of death. Any person who was a beneficiary on the date of the owner's death, but is not a beneficiary on September 30 of the calendar year following the calendar year of the owner's death (because, for example, he or she disclaimed entitlement or received his or her entire benefit), will not be taken into account in determining the designated beneficiary. An individual may be designated as a beneficiary

either by the terms of the plan or, if the plan permits, by affirmative election by the employee specifying the beneficiary.

Note. If a person who is a beneficiary as of the owner's date of death dies before September 30 of the year following the year of the owner's death without disclaiming entitlement to benefits, that individual, rather than his or her successor beneficiary, continues to be treated as a beneficiary for determining the distribution period.

For the exception to this rule, see *Death of surviving spouse prior to date distributions begin*, later.

Death of a beneficiary. In general, the beneficiaries of a deceased beneficiary must continue to take the required minimum distributions after the deceased beneficiary's death, based on the distribution schedule established by that beneficiary under the rules in the following paragraphs. The beneficiaries of a deceased beneficiary do not calculate required minimum distributions using their own life expectancies.

For the exception to this rule, see Death of surviving spouse prior to date distributions begin, later.

More than one beneficiary. If an IRA has more than one beneficiary or a trust is named as beneficiary, see Miscellaneous Rules for Required Minimum Distributions, later.

Owner Died On or After Required Beginning Date

If the owner died on or after his or her required beginning date (defined earlier), and you are the designated beneficiary, you must base required minimum distributions for years after the year of the owner's death on the longer of:

- Your single life expectancy shown on Table I in Appendix C as determined under Beneficiary an individual, later, or
- The owner's life expectancy as determined under Death on or after required beginning date, under Beneficiary not an individual, later.

Surviving spouse is sole designated beneficiary. If the owner died on or after his or her required beginning date and his or her spouse is the sole designated beneficiary, the life expectancy the spouse must use to figure his or her required minimum distribution may change in a future distribution year. This change will apply where the spouse is older than the deceased owner or the spouse treats the IRA as his or her own.

Owner Died Before Required Beginning Date

If the owner died before his or her required beginning date (defined earlier), and you are the designated beneficiary, you generally must base required minimum distributions for years after the year of the owner's death using your single life expectancy shown on Table I in Appendix C as determined under *Beneficiary an individual*, later.

See *5-year rule*, later, for situations where an individual designated beneficiary may be required to take the entire account by the end

of the fifth year following the year of the owner's death.

If the owner's beneficiary is not an individual (for example, if the beneficiary is the owner's estate), the $\frac{1}{2}$ (discussed later) applies.

Special rules for surviving spouse. If the owner died before his or her required beginning date and the surviving spouse is the sole designated beneficiary, the following rules apply.

Year of first required distribution. If the owner died before the year in which he or she reached age $70\frac{1}{2}$, distributions to the spouse do not need to begin until the year in which the owner would have reached age $70\frac{1}{2}$.

Death of surviving spouse prior to date distributions begin. If the surviving spouse dies before December 31 of the year he or she must begin receiving required minimum distributions, the surviving spouse will be treated as if he or she were the owner of the IRA.

This rule does not apply to the surviving spouse of a surviving spouse.

Example 1. Your spouse died in 2011, at age 65½. You are the sole designated beneficiary of your spouse's traditional IRA. You do not need to take any required minimum distribution until December 31 of 2016, the year your spouse would have reached age 70½. If you die prior to that date, you will be treated as the owner of the IRA for purposes of determining the required distributions to your beneficiaries. For example, if you die in 2013, your beneficiaries will not have any required minimum distribution for 2013 (because you, treated as the owner, died prior to your required beginning date). They must start taking distributions under the general rules for an owner who died prior to the required beginning date.

Example 2. Same as Example 1, except your sole beneficiary upon your death in 2013 is your surviving spouse. Your surviving spouse cannot wait until the year you would have turned 70½ to take distributions using his or her life expectancy. Also, if your surviving spouse dies prior to the date he or she is required to take a distribution, he or she is not treated as the owner of the account. Just

like any other individual beneficiary of an owner who dies before the required beginning date, your surviving spouse must start taking distributions in 2014 based on his or her life expectancy (or elect to fully distribute the account under the 5-year rule by the end of 2018).

5-year rule. The 5-year rule requires the IRA beneficiaries to withdraw 100% of the IRA by December 31 of the year containing the fifth anniversary of the owner's death. For example, if the owner died in 2013, the beneficiary would have to fully distribute the plan by December 31, 2018. The beneficiary is allowed, but not required, to take distributions prior to that date. The 5-year rule never applies if the owner died on or after his or her required beginning date.

Individual designated beneficiaries. The terms of most IRA plans require individual designated beneficiaries to take required minimum distributions using the life expectancy rules (explained earlier) unless such beneficiaries elect to take distributions using the 5-year rule. The deadline for

making this election is December 31 of the year the beneficiary must take the first required distribution using his or her life expectancy (or December 31 of the year containing the fifth anniversary of the owner's death, if earlier).

Beneficiary not an individual. The 5-year rule applies in all cases where there is no individual designated beneficiary by September 30 of the year following the year of the owner's death or where any beneficiary is not an individual (for example, the owner named his or her estate as the beneficiary).



Review the IRA plan documents or consult with the IRA custodian or trustee for specifics on the 5-year rule provisions of any particular plan.



If the 5-year rule applies, the amount remaining in the IRA, if any, after December 31 of the year containing the fifth anniversary of the owner's death is subject to the 50% excise tax detailed in Excess Accumulations (Insufficient Distributions), later.

Figuring the Beneficiary's Required Minimum Distribution

How you figure the required minimum distribution depends on whether the beneficiary is an individual or some other entity, such as a trust or estate.

Beneficiary an individual. If the beneficiary is an individual, to figure the required minimum distribution for 2014, divide the account balance at the end of 2013 by the appropriate life expectancy from Table I (Single Life Expectancy) in Appendix C. Determine the appropriate life expectancy as follows.

Spouse as sole designated beneficiary.

Use the life expectancy listed in the table next to the spouse's age (as of the spouse's birthday in 2014). Use this life expectancy even if the spouse died in 2014.

If the spouse died in 2013 or a prior year, use the life expectancy listed in the table next to the spouse's age as of his or her birthday in the year he or she died. Reduce the life

expectancy by one for each year since the year following the spouse's death.



You cannot make a rollover contribution of your required minimum distributions in years after the owner's death. Such contribution is subject to the 6% tax on excess contributions, as discussed in Rollover of required distributions not allowed, earlier.

Other designated beneficiary. Use the life expectancy listed in the table next to the beneficiary's age as of his or her birthday in the year following the year of the owner's death. Reduce the life expectancy by one for each year since the year following the owner's death. As discussed in *Death of a beneficiary*, earlier, if the designated beneficiary dies before his or her portion of the account is fully distributed, continue to use the designated beneficiary's remaining life expectancy to determine the distribution period; do not use the life expectancy of any subsequent beneficiary.

Example. Your father died in 2013. You are the designated beneficiary of your father's

traditional IRA. You are 53 years old in 2014, which is the year following your father's death. You use Table I and see that your life expectancy in 2014 is 31.4. If the IRA was worth \$100,000 at the end of 2013, your required minimum distribution for 2014 would be \$3,185 ($\$100,000 \div 31.4$). If the value of the IRA at the end of 2014 was again \$100,000, your required minimum distribution for 2015 would be \$3,289 ($\$100,000 \div 30.4$ (31.4 reduced by 1, which is the number of years following the year after your father's death in 2013)).

Beneficiary not an individual. If the beneficiary is not an individual, determine the required minimum distribution for 2014 as follows.

Death on or after required beginning date. Divide the account balance at the end of 2013 by the appropriate life expectancy from Table I (Single Life Expectancy) in Appendix C. Use the life expectancy listed next to the owner's age as of his or her birthday in the year of death.