



Advanced IRA and QRP  
Portability, Conversions  
and Recharacterizations



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## Learning Objectives

At the completion of this course you will be able to

- ✓ identify the types of plan assets that are eligible for rollover,
- ✓ compare the differences between retirement plan rollovers to Traditional and Roth IRAs,
- ✓ explain the result of violating the portability rules.
- ✓ describe a conversion and a recharacterization,
- ✓ define the consequences of an ineligible conversion, and
- ✓ understand the reporting requirements for conversions and recharacterizations.

## Icon Legend

 Individual Exercise	 Group Exercise	 Group Discussion
 Example	 Job Aid	 Additional Information



## Employer Plan and IRA Portability

### Definition of an Eligible Employer-Sponsored Retirement Plan

Not all retirement plan assets are eligible to be rolled over to an IRA. Individuals may only roll over assets from eligible retirement plans, which includes plans qualified under Internal Revenue Code Section (IRC Sec.) 401(a), 403(a), 403(b), and governmental 457(b) plans. Individuals may also roll over federal Thrift Savings Plan (TSP) assets to IRAs.

Individuals may not roll over retirement plan assets to a Coverdell education savings account (ESA) or a health savings account (HSA).

The plan administrator must inform the IRA owner whether all or a portion of a retirement plan distribution may be rolled over to an IRA or another eligible retirement plan.

Eligible Employer-Sponsored Retirement Plans	Ineligible Employer-Sponsored Retirement Plans
Pension plans	The Federal Railroad Retirement Plan (Tier I or Tier II)
Profit sharing plans	Social Security
Deferred compensation plans (457(b) plans) established by <i>government</i> agencies	Deferred compensation plans (457 plans) established by <i>nonprofit</i> organizations
Stock bonus plans	Government retirement plans not qualified under IRC Sec. 401(a)
Owner-only plans	Foreign government retirement plan (e.g., the Canadian registered retirement savings plan)
Annuity or custodial account under any of the above plans	Annuities that are not part of a qualified retirement plan
TSP	

## Triggering Events

In general, individuals who participate in an employer-sponsored retirement plan may not take a distribution from the plan unless they have what is commonly referred to as a “triggering event”.









The following events, depending on the employer’s plan document, may allow a plan participant to take a distribution from the plan.

Triggering Events by Plan Type		
Qualified Retirement Plans	403(b) Plans	Governmental 457(b) Plans
<ul style="list-style-type: none"> <li>• Plan termination</li> <li>• Severance from employment</li> <li>• Normal retirement age</li> <li>• Death</li> <li>• Disability</li> <li>• Hardship</li> <li>• Qualified reservists</li> <li>• In-service distribution</li> </ul>	<ul style="list-style-type: none"> <li>• Plan termination</li> <li>• Severance from employment</li> <li>• Age 59½</li> <li>• Death</li> <li>• Disability</li> <li>• Hardship</li> <li>• Qualified reservists</li> </ul>	<ul style="list-style-type: none"> <li>• Plan termination</li> <li>• Severance from employment</li> <li>• Year plan participant attains age 70½</li> <li>• Unforeseeable emergency</li> </ul>



## Plan Assets Not Eligible for Rollover

The definition of “eligible rollover distributions” is found in IRC Sec. 402(c)(4). Plan participants and beneficiaries generally may roll over any portion of an eligible employer-sponsored retirement plan distribution except for amounts that are included in one or more of the following categories.

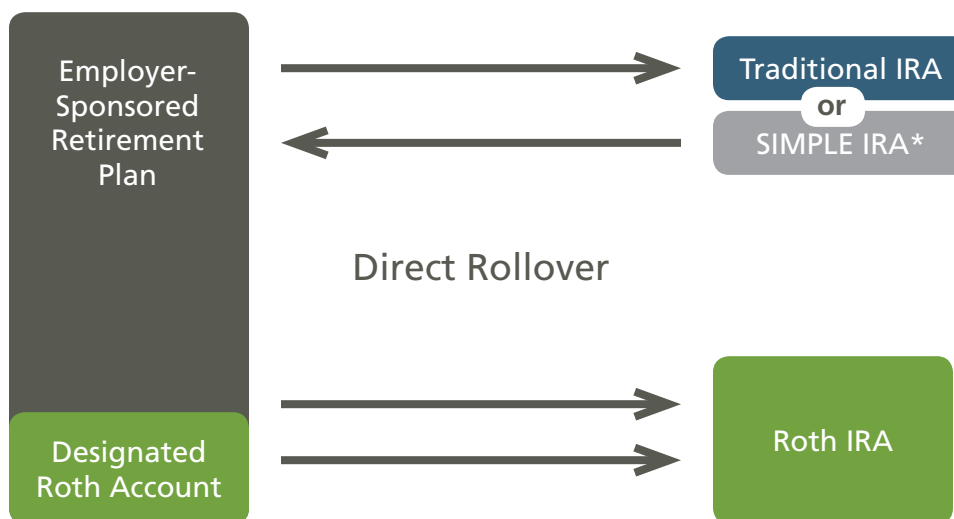
Plan Assets Not Eligible for Rollover		
	Type of Asset	Definition
	RMD	Assets that represent the participant’s required minimum distribution
	Substantially equal periodic payments	Distributions that are part of a series of substantially equal periodic payments (made over single or joint life expectancy) or that are taken over a specified period of 10 or more years
	Hardship distributions	A distribution made because of an immediate and heavy financial need and limited to the amount necessary to satisfy the financial need
	Excess deferrals or contributions	Deferrals in excess of the annual 402(g) deferral limit, deferrals that exceed the IRC Sec. 415 allocation limit, or excess contributions from a 401(k) or 401(m) plan that are returned to the participant
	Plan loans	Plan loan amounts that are treated as taxable (deemed) distributions because of default or because they do not meet the IRC Sec. 72(p) requirements. (Plan loan offset amounts are eligible rollover distributions.)
	Employer security dividends	Dividends paid on employer securities as described in IRC Sec. 404(k)
	Life insurance premiums	Premiums paid by the plan for the cost of current life or other insurance protection for participants
	Permissible withdrawals	Permissible withdrawals from eligible automatic contribution arrangements (generally within 90 days of the first automatic contribution)

## Taxation

Assets rolled over between retirement plans and Traditional and SIMPLE IRAs remain tax deferred until they are distributed to the individual. Pretax amounts rolled over to Roth IRAs are included in the IRA owner's gross income in the year of rollover, but the 10 percent early distribution penalty tax will not apply. If, however, the amount rolled over is distributed in a nonqualified distribution from the Roth IRA within five years of the rollover, the pretax portion that was rolled over is not taxed, but the 10 percent early distribution penalty tax will apply.

## Direct Rollover

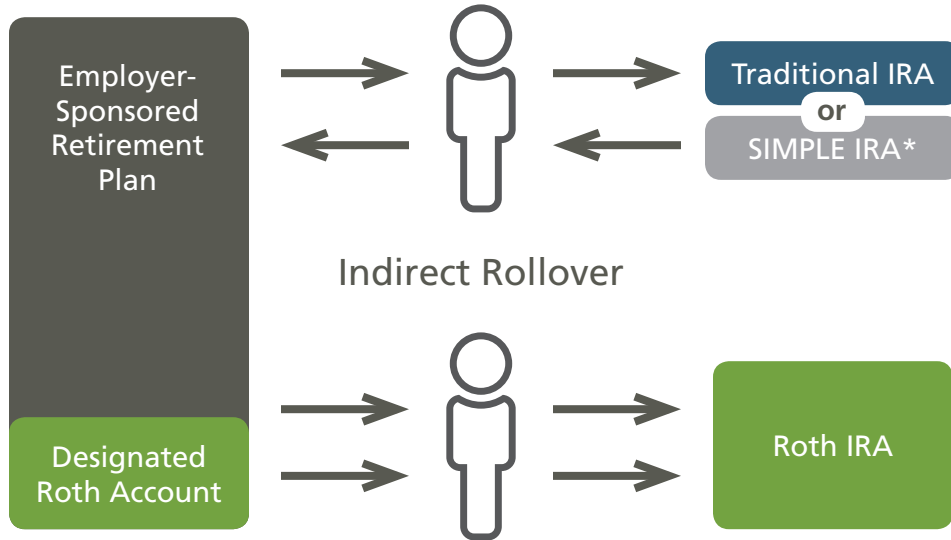
A direct rollover is a transaction in which retirement assets are moved directly between an employer-sponsored retirement plan and an IRA. To be a direct rollover, the check must be payable to the organization receiving the assets.



\*Must have met the two-year clock, which starts on the date the first contribution was made to the SIMPLE IRA.

## Indirect Rollover

An indirect rollover is a transaction in which the IRA owner has constructive receipt of the assets between the time they are received and the time they are deposited into the IRA or employer-sponsored retirement plan. If an IRA owner indirectly rolls over an employer-sponsored retirement plan distribution, the payer must withhold 20 percent on the taxable portion of the distribution.

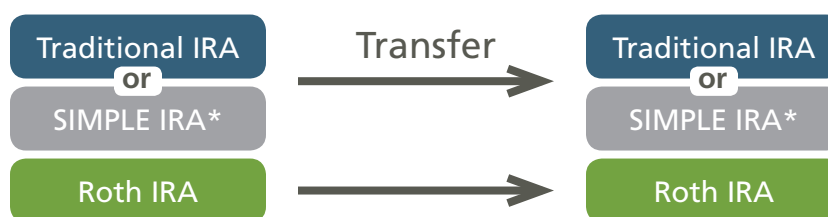


\*Must have met the two-year clock, which starts on the date the first contribution was made to the SIMPLE IRA.

## IRA-to-IRA Portability

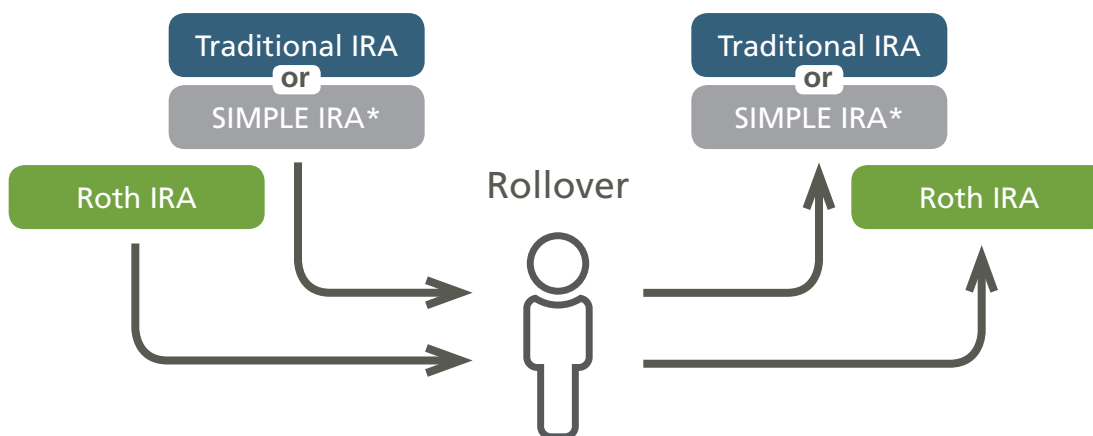
### Transfer

An IRA-to-IRA transfer is one method of moving assets from one IRA to another. A transfer usually occurs between two separate financial organizations, but a transfer also may occur between like IRAs held at the same organization. If handled properly, the transaction is neither taxable nor reportable. While the IRA owner directs the asset transfer, he does not actually receive the assets when conducting a transfer. Rather, the transaction is completed only between the distributing and receiving financial organizations.



### Rollover

An IRA-to-IRA rollover is another tax-free method to move money or property from one IRA to another IRA, generally of the same type. Rollovers differ from transfers because the individual actually receives the money or property before rolling it over to an IRA. In other words, a distribution occurs. Consequently, financial organizations must report rollover transactions to the IRS.




\*Must have met the two-year clock, which starts on the date the first contribution was made to the SIMPLE IRA.

## Employer Plan and IRA Rollover Restrictions

### 60-Day Rollover Rule

Individuals have 60 days to complete a rollover. The 60-day period begins the day after an individual receives a distribution.

MAY							JUNE							JULY						
Sun	Mon	Tue	Wed	Thu	Fri	Sat	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Sun	Mon	Tue	Wed	Thu	Fri	Sat
	1	2	3	4	5	6					1	2	3							1
7	8	9	10	11	12	13	4	5	6	7	8	9	10	2	3	4	5	6	7	8
14	15	16	17	18	19	20	11	12	13	14	15	16	17	9	10	11	12	13	14	15
21	22	23	24	25	26	27	18	19	20	21	22	23	24	16	17	18	19	20	21	22
28	29	30	31				25	26	27	28	29	30	23 30	24 31	25	26	27	28	29	



The Economic Growth and Tax Relief Reconciliation Act of 2001 gave the IRS authority to waive the 60-day rollover requirement in cases of hardship—including casualty, disaster, or other events beyond the individual’s reasonable control.

Revenue Procedure (Rev. Proc.) 2003-16 discusses when an individual can apply for a waiver of the 60-day restriction. It also provides an automatic waiver if a financial organization fails to timely complete a rollover transaction.

### *Self-Certification Process*

The IRS issued Rev. Proc. 2016-47 in 2016 describing a new option—effective immediately—for IRA owners (and plan participants) to self-certify that they qualify for relief from the 60-day rollover rule. This certification generally may be relied upon by financial organizations offering IRAs (and plan administrators of 401(a) and 403(a) qualified retirement plans, 403(b) plans, and governmental 457(b) plans). The self-certification is only for the purpose of accepting rollovers that do not satisfy the 60-day rule, not for rollovers that do not satisfy other requirements.

To qualify for self-certification, the IRS must not have previously denied a rollover waiver requested by the account owner. The rollover contribution must satisfy all requirements of a valid rollover (except for the 60-day rule). In addition, the account owner must have missed the 60-day deadline because one or more of the following reasons prevented her from completing the rollover.

- An error was committed by the financial organization or plan administrator receiving the contribution or making the distribution to which the contribution relates.
- The distribution check was misplaced and never cashed.
- The account owner mistakenly thought the distribution was deposited into an eligible plan or IRA.
- The account owner's principal residence was severely damaged.
- A member of the account owner's family died.
- The account owner or her family member was seriously ill.
- The account owner was incarcerated.
- Restrictions were imposed by a foreign country.
- A postal error occurred.
- The distribution was made because of an IRS levy and the levy proceeds were returned to the account owner.
- The distributing plan delayed providing the information required to complete the rollover despite the account owner's reasonable efforts to obtain the information.

The rollover contribution must be made to the IRA (or retirement plan) as soon as practicable once the qualified reason no longer prevents the account owner from making the rollover contribution. This requirement is deemed to be satisfied if the contribution is made within 30 days after the reason no longer applies.

An account owner may self-certify in writing by completing and signing the model self-certification letter in Rev. Proc. 2016-47, or a substantially similar letter or form, and presenting it to the financial organization (or plan administrator) receiving the rollover. For the purposes of determining whether an individual satisfies the conditions for a waiver, the financial organization (or plan administrator) receiving the rollover may rely on the account owner's self-certification, unless it has knowledge of the contrary. A copy of the certification document should be kept in the account owner's file and be available if requested during a tax examination.

Self-certified rollovers are reported on Form 5498, *IRA Contribution Information*, in Boxes 13a and 13c, using code SC for Box 13c.

### *Applying for a Waiver*

Individuals can apply to the IRS for a waiver of the 60-day rollover restriction under the private letter ruling (PLR) rules outlined in Rev. Proc. 2019-4. Rev. Proc. 2019-4 states that the PLR request fee for waiver of the 60-day rollover restriction is \$10,000.

If the rollover is approved, only the distribution amount (no earned interest) is eligible for rollover.

### *Automatic Waiver if Financial Organization Error*

The IRS has the authority to waive the 60-day rollover rule in some circumstances. An automatic waiver is granted if all of the following are true.

- The financial organization received the assets within 60 calendar days of the date of distribution.
- The IRA owner followed the correct procedures for contributing the assets to an eligible IRA within the 60-day period (including giving instructions to contribute the assets to an eligible IRA).
- The assets were not deposited because of financial organization error.
- The assets are deposited into an IRA within one calendar year from the beginning of the 60-day period.
- The transaction would have been valid if the assets had been deposited as instructed.

## RMD Restriction

Even though individuals may transfer RMDs, they may not roll over an RMD. In any year for which an individual is required to take an RMD, the IRS considers the first assets distributed from the IRA (or employer-sponsored retirement plan) to satisfy that year's RMD (Treas. Reg. 1.402(c)-2, Q&A 7). Only after the RMD is satisfied for a year may an individual roll over assets.



### *RMD Restriction*

Frank has **not** taken his 2019 RMD of \$4,028. Frank withdrew the entire account balance (\$38,670) from his IRA at Jewel Financial Organization. How much is Frank allowed to roll over to Valley Financial?

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## IRA-to-IRA Rollover Restriction

### One-Per-12-Month Rule

IRA owners may not roll over more than one IRA distribution per 12-month period, regardless of the number and types of IRAs they own. In March 2014, the IRS announced this new interpretation of the rollover requirement to follow a U.S. tax court ruling in *Bobrow v. Commissioner*. The IRS position for many years, as stated in proposed Treas. Reg. 1.408-4(b)(4)(ii) and in former IRS Publication 590, *Individual Retirement Arrangements (IRAs)*, had been that a taxpayer was permitted to roll over one IRA distribution per 12-month period for every IRA that he owned.

**NOTE:** *The one-per-12-month rule applies only to assets rolled between two IRAs of the same type. It does not apply to assets moved to or from an employer-sponsored retirement plan.*

## Retirement Plan Rollovers Due to Divorce

A plan participant's former spouse often receives part of the participant's account balance in a divorce or legal separation.

The former spouse cannot remove any interest in the plan until the plan administrator determines that the domestic relations order (DRO) satisfies the requirements of a qualified domestic relations order (QDRO).

- This requirement is harder to meet than the requirement for a transfer between IRAs.
- The parties must rely on the plan administrator to determine if the DRO is qualified. Financial organizations should not offer advice on this issue.

If the distribution to the former spouse is an eligible rollover distribution, the former spouse can roll it over to an IRA. (Assets distributed from a designated Roth account must go into a Roth IRA.)

The plan administrator is required to tell the former spouse what portion of the distribution is eligible for rollover.

If the former spouse elects to receive the assets instead of directly rolling them over, the plan administrator must withhold 20 percent of the taxable portion for federal income taxes. The former spouse may roll over 100 percent of the eligible rollover distribution if she uses assets from another source to make up the 20 percent that was withheld. Keep in mind that the 60-day rule applies.

## IRA Transfers and Rollovers Due to Divorce

An IRA owner may be required to distribute part or all of an IRA to a former spouse as part of a divorce or legal separation. A divorce decree typically will address the allocation of IRA assets to the former spouse.

A transfer is the conventional method for moving IRA assets from the IRA owner to the former spouse. Verbal IRS guidance indicates that individuals may also use a rollover to move assets to a former spouse's IRA as part of a divorce or legal separation.

Financial organizations should exercise caution if the divorce decree is silent on the issue of distribution and rollover versus transfer. Until the IRS issues definitive written guidance, a financial organization should, in conjunction with the spouse or former spouse, make a business decision on how to handle the division. The following are some suggested action steps.

- Request that the IRA owner and former spouse ask the court to amend the divorce decree or separation agreement (if practical) to clarify how the financial organization should treat the transaction.
- Obtain the written consent of the parties (or their attorneys) and either
  - transfer the applicable portion of the IRA to a separate IRA established for the former spouse, or
  - distribute the assets to the former spouse and allow the former spouse to roll over the assets to his own IRA.
- Obtain a written signed statement (a "hold harmless statement") acknowledging that the financial organization has informed the parties of their options and that they will not blame the financial organization if the IRS disallows the transactions.

Any questions regarding the legal document should be referred to the financial organization's attorney for interpretation. In no event may the resulting transaction be contrary to the terms of the divorce decree or separation agreement. The parties should rely on their divorce attorneys to determine that the proper documents have been executed. Financial organizations should not offer advice on this issue.

The following steps should be completed once the necessary divorce or separation documents have been issued.

1. The former spouse should open an IRA of the same type if one does not already exist.
2. The former spouse should complete a contribution form (e.g., Ascensus' *Traditional IRA Contribution and Investment Selection* form) to document the transfer or rollover contribution.
3. Complete the transfer or rollover.



### *IRA Transfer Due to Divorce*

Brian and Sandy recently divorced. As part of the divorce decree, Brian was ordered to transfer one-half of his Traditional IRA assets to Sandy's Traditional IRA. Sandy is in the financial organization requesting that the assets instead be moved to her savings account.

The financial organization should first have Sandy provide a copy of the divorce decree stating that the assets are to be transferred to Sandy. After this is done, the financial organization can transfer the assets to Sandy's Traditional IRA. Sandy must establish an IRA if she does not already have one. Once the assets are deposited into Sandy's IRA, the financial organization can move the assets into her savings account as a taxable distribution.

## IRA Rollover and Transfer Special Issues

### Rollover of Pretax and After-Tax Assets

Individuals are allowed to split pretax and after-tax retirement plan assets that are directly rolled over to multiple destinations (i.e., other retirement plans or IRAs). For individuals attempting to roll over pretax assets to a Traditional IRA and after-tax assets to a Roth IRA, this eliminates the need to complete two separate indirect rollovers. Following are the key points of rolling over both types of assets.

- If a plan disbursement includes one or more direct rollovers and a cash distribution, the direct rollovers will be deemed to be pretax in nature, up to the maximum pretax amount in the participant's account. Thus, the cash distribution to the participant will be considered to include pretax assets only if the participant's pretax assets exceed the direct rollover amounts.
- In the previous scenario (i.e., a combination of direct rollover and cash distribution), if two or more indirect rollovers of the cash portion take place subsequent to the direct rollovers, the pretax assets in the indirect rollovers may be allocated to the receiving accounts as the recipient wishes. For example, if after the direct rollovers, the recipient wishes to indirectly roll over the remaining pretax assets to a Traditional IRA and the after-tax assets to a Roth IRA, he may do so.
- If multiple direct rollovers from a participant's account go to two or more plans or IRAs, the recipient can select how the pretax assets are allocated among these plans or IRAs. To make this selection, the recipient must inform the plan administrator of the allocation *before* the direct rollovers occur. Such direct rollovers may be required to be reported on a separate Form 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*

### Failed IRA Transfers

A transfer that is not deposited into an IRA is no longer considered a transfer. This includes wire transfers that are mistakenly deposited into a non-IRA account. If the IRA assets are deposited into a non-IRA account, it will constitute "constructive receipt" by the IRA owner. Once an IRA owner is considered to have receipt of the assets, the assets are considered a distribution that may be subsequently rolled over to an IRA, if eligible. This rollover must be done within 60 days following constructive receipt of the assets.

## Invalid Rollovers to IRAs

When an individual rolls over an ineligible amount to an IRA or violates the 60-day rule or the one-per-12-month rule, the rollover becomes an invalid rollover contribution. Thus, the financial organization must treat the rollover amount as a regular contribution for the year in which the rollover occurred.

Financial organizations must report the invalid rollover amount as a regular contribution on Form 5498, *IRA Contribution Information*, in Box 1, *IRA contributions (other than amounts in boxes 2–4, 8–10, 13a, and 14a)*, for a Traditional IRA or Box 10, *Roth IRA contributions*, for a Roth IRA. Financial organizations must report only the eligible portion (if any) of a rollover contribution in Box 2 of Form 5498.

If the invalid rollover contribution amount, combined with any regular, spousal, or catch-up IRA contributions made for the tax year, exceeds the IRA owner's annual contribution limit, the IRA owner must treat the amount as an excess contribution.

## NSF Share Draft/Check for Rollover Contribution

If an individual deposits cash into a nonqualified account (e.g., a regular checking account) to cover a check or draft that has nonsufficient funds (NSF), then the rollover contribution to the IRA is valid as of the date the check is honored or the date the individual provides a replacement check.

If the individual does not make a deposit to cover the check by the rollover deadline, then no rollover will occur. Thus, the individual and financial organization must make the necessary reporting changes to show that a rollover did not occur.

### Disaster-Related Rollover Deadlines

**Qualified Hurricane Distributions:** The Disaster Tax Relief and Airport and Airway Extension Act of 2017 allowed individuals whose principal residence is within a presidentially declared disaster area affected by Hurricanes Harvey, Irma, and Maria to take up to \$100,000 in aggregate from their IRAs or QRPs. This legislation generally provides special tax treatment to distributions taken after August 23, 2017, and before January 1, 2019 (depending on which hurricane an individual was affected by).

**Qualified 2016 Disaster Distributions:** The Tax Cuts and Jobs Act of 2017 (TCJA) provides similar relief to qualified 2016 disaster distributions, which were distributions taken on or after January 1, 2016, and before January 1, 2018, by victims of any 2016 presidentially-declared disaster event.

**Qualified Wildfire Distributions:** The Bipartisan Budget Act of 2018 provides similar relief allowing victims of the California wildfires to distribute up to \$100,000 in aggregate from their IRAs or QRPs on or after October 8, 2017, and before January 1, 2019.

All of the disaster-related qualified distributions are exempt from the 10 percent early distribution penalty tax, can be repaid within three years, and distributions not repaid may be ratably taxed over three years.

### Offset Plan Loan Rollover Deadline

Participants generally have 60 days to roll over a retirement plan loan offset. But for plan loan offsets that result only from plan termination or severance from employment, TCJA extends the normal 60-day time limit to the individual's tax filing deadline, including extensions, for the tax year in which the offset occurs. The extension became effective for offsets distributed in tax years beginning after 2017.

## Rollover of Wrongful IRS Levy

If the Treasury Department determines that a prior levy from an IRA or employer-sponsored retirement plan should not have occurred and returns assets to the IRA owner, the Bipartisan Budget Act of 2018 allows the IRA owner to return the assets to an IRA or employer plan under the following terms.

- The amount of money returned to the IRA owner, adjusted for earnings, may be rolled over to an employer plan (plan permitting) or an IRA.
- The rollover must occur by the IRA owner's tax return deadline (not including extensions), for the year in which the amount is returned. For tax purposes, the rollover will be treated as if it occurred in the year the IRS levy resulted in the distribution.
- A rollover to an IRA will not count towards the one-per-12-month IRA rollover limitation.
- A non-Roth (generally pretax) amount rolled over to a Roth IRA or designated Roth account will be taxable.
- Nonspouse beneficiaries with inherited IRAs may roll over returned amounts to such IRAs.

These terms are applicable to amounts returned on or after January 1, 2018.



## Heroes Earnings Assistance and Relief Tax Act (HEART Act)

President Bush signed the HEART Act into law in June 2008. This legislation provided a number of tax-related benefits to individuals in the military service and their beneficiaries. Two of these tax-related benefits are described below.

### Qualified Reservist Distributions

Distributions to eligible members of a U.S. military reserve (including the National Guard) are considered penalty-free if they meet the following rules.

- The distribution was made to a reservist called to active duty on or after September 12, 2001, for 180 or more days (or for an indefinite period).
- The distribution was made between the date of the order or call to duty and the end of the active duty period.
- The distribution was made from an IRA or an elective deferral account under a 401(k) or 403(b) plan.

A reservist receiving such a distribution may redeposit the amount to an IRA within two years after the end of the active duty period.

### Reporting Qualified Reservist Repayments

Financial organizations must report the repayment of a qualified reservist distribution on IRS Form 5498.

TRUSTEE'S or ISSUER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code		1 IRA contributions (other than amounts in boxes 2-4, 8-10, 13a, and 14a)	OMB No. 1545-0747	IRA Contribution Information	
		\$	2019 Form 5498		Copy A For Internal Revenue Service Center File with Form 1096.
TRUSTEE'S or ISSUER'S TIN		2 Rollover contributions		4 Recharacterized contributions	
PARTICIPANT'S TIN		\$	5 FMV of account	6 Life insurance cost included in box 1	
PARTICIPANT'S name		3 Roth IRA conversion amount	\$	For Privacy Act and Paperwork Reduction Act Notice, see the 2019 General Instructions for Certain Information Returns.	
Street address (including apt. no.)		7 IRA <input type="checkbox"/> SEP <input type="checkbox"/> SIMPLE <input type="checkbox"/> Roth IRA <input type="checkbox"/>	8 SEP contributions		9 SIMPLE contributions
City or town, state or province, country, and ZIP or foreign postal code		\$	10 Roth IRA contributions		11 Check if RMD for 2020 <input type="checkbox"/>
Account number (see instructions)		12a RMD date	\$		12b RMD amount
		13a Postponed/late contrib.	\$		13b Year
		14a Repayments	\$		13c Code
		15a FMV of certain specified assets	\$		14b Code
					15b Code(s)

Form 5498 Cat. No. 50010C www.irs.gov/Form5498 Department of the Treasury - Internal Revenue Service  
Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page

**Box 14a** *Repayments*, Enter the amount of any qualified reservist distribution repayment.

**Box 14b** *Code*, Enter code QR for the repayment of a qualified reservist distribution

## Provisions for Military Death Gratuities

This provision allows service members' survivors who receive military death gratuities or servicemembers' group life insurance payments to roll over those payments to their Roth IRAs or ESAs. These amounts should be reported in Box 2 of Form 5498 as a rollover contribution. These amounts cannot be rolled over to Traditional IRAs.

The following requirements generally apply.

- The rollover contribution must be made within one year after receiving the death benefit.
- The amount rolled over cannot exceed the amount of the death benefit received by the survivor.
- Neither the 60-day rollover rule nor the one-per-12-month rollover rule applies.
- The amount rolled over is not subject to the regular contribution limit.

When an individual wants to roll over part or all of a military-related death payment to a Roth IRA or ESA, the financial organization should take the following steps.

### **Ascensus Fully-Administered Financial Organizations**

1. Print the *Special Contributions* form, which is located in the **Blank Forms** section of the IRAdirect® homepage. Have the individual complete the form.
2. Review the form for accuracy. Photocopy the signed form and give the photocopy to the individual.
3. Add the contribution to the organization's data processing system as a Roth IRA (or ESA) rollover contribution. File the original form in the financial organization's records. (Fax the completed form to Ascensus at 215-648-1586. This will ensure that tax reporting is handled correctly for the IRA owner.)

### **Self- or Non-Administered Financial Organizations**

1. Obtain the *Special Contributions* form from Ascensus or obtain a form designed for this contribution type from a forms provider. Have the individual complete the form.
2. Review the form for accuracy. Photocopy the signed form and give the photocopy to the individual.
3. Add the contribution to the organization's data processing system as a Roth IRA (or ESA) rollover contribution. File the original form in the financial organization's records.

## Retirement Plan and IRA Rollover Reporting

### Reporting Direct Rollovers on Form 1099-R

Payers must use the following reason codes to report distributions that are directly rolled over to a Traditional or Roth IRA.

Source of Assets	Destination of Assets		
Employer Plan	Traditional IRA	Roth IRA	Employer Plan
Pretax and after-tax assets	<b>G</b> <i>Zero (-0-) in Box 2a</i>	<b>G</b> <i>Taxable amount in Box 2a</i>	<b>G</b> <i>Zero (-0-) in Box 2a</i>
Designated Roth account assets		<b>H</b> <i>Zero (-0-) in Box 2a</i>	
Beneficiary rollover of pretax assets	<b>4G</b> <i>Zero (-0-) in Box 2a</i>	<b>4G</b> <i>Taxable amount in Box 2a</i>	<b>4G</b> <i>Zero (-0-) in Box 2a</i>
Beneficiary rollover of designated Roth account assets		<b>4H</b> <i>Zero (-0-) in Box 2a</i>	
Traditional IRA or SIMPLE IRA			<b>G</b> <i>Zero (-0-) in Box 2a</i>

## Reporting Indirect Rollovers on Form 1099-R

Payers must report distributions that are indirectly rolled over using the reason code applicable for that type of distribution.

Source of Assets	Destination of Assets		
	Traditional IRA	Roth IRA	Employer Plan
Pretax and after-tax assets	<b>1 or 7</b> <i>Taxable amount in Box 2a</i>	<b>1 or 7</b> <i>Taxable amount in Box 2a</i>	<b>1 or 7</b> <i>Taxable amount in Box 2a</i>
Designated Roth account assets		<b>B</b> <i>Taxable amount in Box 2a</i>	
Beneficiary rollover of pretax assets	<b>4</b> <i>Taxable amount in Box 2a</i>	<b>4</b> <i>Taxable amount in Box 2a</i>	<b>4</b> <i>Taxable amount in Box 2a</i>
Beneficiary rollover of designated Roth account assets		<b>4B</b> <i>Taxable amount in Box 2a</i>	
Traditional IRA or SIMPLE IRA	<b>1 or 7</b> <i>Taxable amount in Box 2a</i>		<b>1 or 7</b> <i>Taxable amount in Box 2a</i>

## Reporting Rollover Contributions on Form 5498

Financial organizations must report rollovers in Box 2, *Rollover contributions*, of IRS Form 5498, *IRA Contribution Information*.



*Advanced Portability*

Dominic and Leticia recently divorced. As part of the divorce decree, Dominic was ordered to give Leticia one-half of his Traditional IRA assets. Leticia is in the financial organization requesting that the assets be transferred into her savings account at the financial organization.

1. Can the assets be transferred into her savings account?

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2. What is needed before the transfer can be completed?

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## Roth IRA Conversions

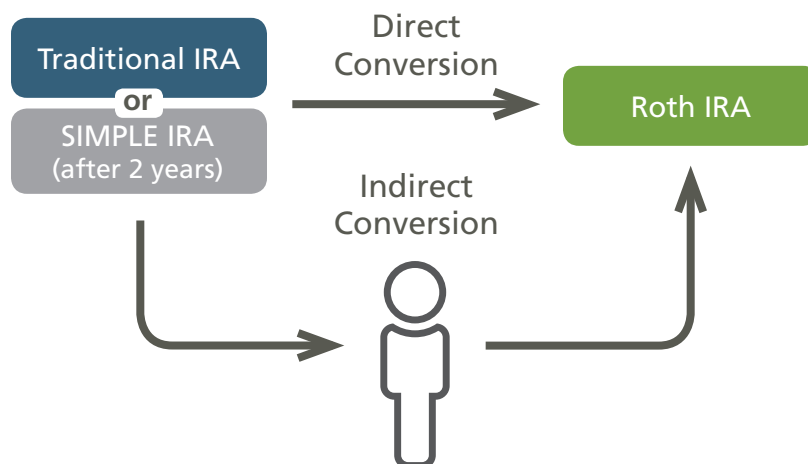
A conversion is a taxable, reportable movement of assets from either a Traditional IRA (including Traditional IRAs that hold SEP contributions) or a SIMPLE IRA (after a two-year period) to a Roth IRA.

- The IRA owner must pay tax on all pretax assets included in the conversion in the year the assets leave the Traditional IRA.
- Properly converted assets are not subject to the 10 percent early distribution penalty tax.

A conversion can occur either as a direct or an indirect conversion.

- With an indirect conversion, the IRA owner has constructive receipt of the assets and must redeposit the assets into a Roth IRA within 60 days after receiving the assets.
- With a direct conversion, there is no time limit because the IRA owner does not have constructive receipt of the assets.

Depending on the IRA owner's age and other variables, a conversion could result in a substantial increase in after-tax distributions at retirement. IRA owners with questions should seek competent tax advice.



*Why would a Traditional IRA or SIMPLE IRA owner choose to complete a conversion?*

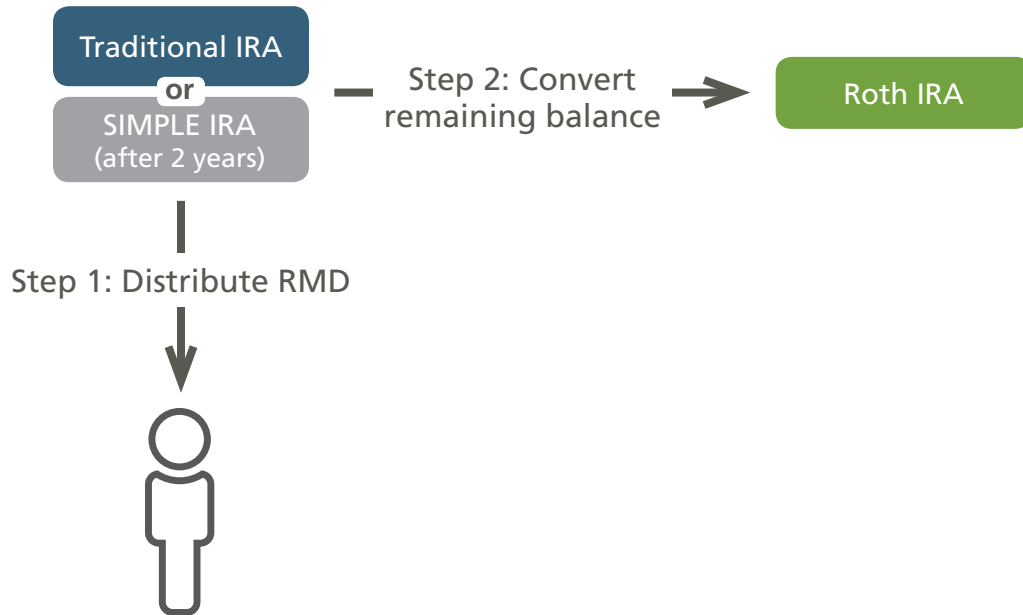
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## Conversions and RMDs

In any year for which an IRA owner is required to take an RMD, he must use the first assets distributed to satisfy that year's RMD. An IRA owner may not convert RMDs. Only after the individual satisfies the RMD for the year may he convert his Traditional IRA or SIMPLE IRA assets to a Roth IRA.



### *Conversion and RMDs*

Cindy, age 72, would like to convert her entire Traditional IRA balance (\$109,218.43) to a Roth IRA. Her RMD for the year is \$3,986.07. Because Cindy cannot convert the RMD, she must receive \$3,986.07 as a normal distribution. She may then convert the remaining balance of \$105,232.36.

## Ineligible Conversions

Certain types of IRA assets cannot be converted to a Roth IRA. If an IRA owner converts an ineligible amount to a Roth IRA, the financial organization must report the ineligible amount as a regular Roth IRA contribution in Box 10, *Roth IRA contributions*, of Form 5498. Financial organizations must report only the eligible portion (if any) of a conversion contribution in Box 3, *Roth IRA conversion amount*, of Form 5498.

If the ineligible conversion amount, combined with any regular, spousal, or catch-up contributions made for the tax year, exceed the IRA owner's contribution limit, the IRA owner must treat the amount as an excess Roth IRA contribution. The following types of assets are examples of ineligible conversion amounts.

<b>RMDs</b>	If an IRA owner has not satisfied her RMD for the year, she must first distribute her RMD and then convert the remaining balance to a Roth IRA.
<b>SIMPLE IRA assets before two-year clock is met</b>	Individuals cannot convert SIMPLE IRA assets before meeting the two-year clock, which begins on the date the first contribution under the SIMPLE IRA plan was deposited.



## Converting and Withholding

The financial organization holding the distributing Traditional IRA or SIMPLE IRA must apply withholding rules to all conversions (i.e., direct and indirect).

If an IRA owner under age 59½ elects to withhold on a distribution that is directly converted, the financial organization must report the distribution on two Forms 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*, as follows.

- Enter code 2, *Early distribution, exception applies*, in Box 7, *Distribution code(s)*, to report the amount directly converted.
- Enter code 1, *Early distribution, no known exception*, in Box 7 to report the amount withheld.

If an IRA owner age 59½ or older elects to withhold on a distribution that is directly converted, the financial organization must use code 7, *Normal distribution*, to report both the amount withheld and the amount directly converted.

Because amounts withheld are not converted to a Roth IRA, they are treated as separate taxable distributions. These amounts are also subject to the 10 percent early distribution penalty tax (unless a penalty tax exception applies).

## Conversion Reporting

### IRS Form 1099-R

The financial organization distributing the conversion assets must report the distribution on Form 1099-R to the IRA owner and the IRS.

9898 <input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED				OMB No. 1545-0119		<b>Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.</b>
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and phone no.		1 Gross distribution		<span style="font-size: 2em; font-weight: bold;">2019</span> Form <b>1099-R</b>		
		\$				
		2a Taxable amount				<b>Copy A For Internal Revenue Service Center</b>  <b>File with Form 1096.</b>  For Privacy Act and Paperwork Reduction Act Notice, see the <b>2019 General Instructions for Certain Information Returns.</b>
		\$		2b Taxable amount not determined <input type="checkbox"/>		
				Total distribution <input type="checkbox"/>		
PAYER'S TIN	RECIPIENT'S TIN	3 Capital gain (included in box 2a)		4 Federal income tax withheld		
		\$		\$		
RECIPIENT'S name		5 Employee contributions/ Designated Roth contributions or insurance premiums		6 Net unrealized appreciation in employer's securities		
		\$		\$		
Street address (including apt. no.)		7 Distribution code(s)		8 Other		
				\$		
City or town, state or province, country, and ZIP or foreign postal code		9a Your percentage of total distribution		9b Total employee contributions		
		%		%		
10 Amount allocable to IRR within 5 years	11 1st year of desig. Roth contrib.	FATCA filing requirement <input type="checkbox"/>		12 State tax withheld		13 State/Payer's state no.
\$				\$		\$
Account number (see instructions)		Date of payment		15 Local tax withheld		16 Name of locality
				\$		\$
						17 Local distribution
						\$

Form **1099-R** Cat. No. 14436Q [www.irs.gov/Form1099R](http://www.irs.gov/Form1099R) Department of the Treasury - Internal Revenue Service

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The following information is based on the 2019 *Instructions for Forms 1099-R and 5498*.

- Box 1** Gross distribution amount, includes amounts withheld for taxes.
- Box 2a** Enter the same amount as in Box 1
- Box 2b** Mark the *Taxable amount not determined* box  
Mark the *Total distribution* checkbox if all the IRA assets were distributed
- Box 4** Enter the federal withholding amount
- Box 7** Enter code 1 if the IRA owner is under age 59½ and indirectly converted the assets  
Enter code 2 if the IRA owner is under age 59½ and directly converted the assets  
Enter code 7 if the IRA owner is age 59½ or older  
Mark the *IRA/SEP/SIMPLE* box

## IRS Form 5498

The financial organization receiving the conversion assets must report the conversion on Form 5498, *IRA Contribution Information*, to the IRA owner and the IRS.

2019		<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-0747	
TRUSTEE'S or ISSUER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code		1 IRA contributions (other than amounts in boxes 2-4, 8-10, 13a, and 14a)	2019		IRA Contribution Information
		\$	Form 5498		
TRUSTEE'S or ISSUER'S TIN		2 Rollover contributions	4 Recharacterized contributions		Copy A For Internal Revenue Service Center File with Form 1096.
PARTICIPANT'S TIN		\$	\$		
PARTICIPANT'S name		3 Roth IRA conversion amount	6 Life insurance cost included in box 1		For Privacy Act and Paperwork Reduction Act Notice, see the 2019 General Instructions for Certain Information Returns.
Street address (including apt. no.)		5 FMV of account	9 SIMPLE contributions		
City or town, state or province, country, and ZIP or foreign postal code		\$	10 Roth IRA contributions		
		7 IRA <input type="checkbox"/> SEP <input type="checkbox"/> SIMPLE <input type="checkbox"/> Roth IRA <input type="checkbox"/>	11 Check if RMD for 2020 <input type="checkbox"/>		
		8 SEP contributions	12a RMD date		
		\$	\$		
		10 Roth IRA contributions	12b RMD amount		
		\$	\$		
		12a RMD date	13a Postponed/late contrib.		
		\$	13b Year 13c Code		
Account number (see instructions)		13a Postponed/late contrib.	14a Repayments		
		\$	\$		
		14a Repayments	14b Code		
		\$	\$		
		15a FMV of certain specified assets	15b Code(s)		
		\$	\$		

Form 5498 Cat. No. 50010C www.irs.gov/Form5498 Department of the Treasury - Internal Revenue Service

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The following information is based on the 2019 *Instructions for Forms 1099-R and 5498*.

- Box 3** Enter all conversion amounts
- Box 5** Enter the December 31 value
- Box 7** Enter an "X" in the *Roth IRA* box

## Nondeductible Traditional IRA Assets

To determine the amount of nondeductible IRA assets, the individual must treat all of her Traditional and SIMPLE IRAs as one IRA.

If an IRA owner makes nondeductible Traditional IRA contributions or rolls over after-tax retirement plan contributions to a Traditional IRA, he has basis (after-tax assets) in his Traditional IRA. He will not pay tax on the portion of a conversion that represents basis. An IRA owner may not convert only basis; any assets converted to a Roth IRA are subject to a pro rata taxation of basis (if any) and pretax assets.

An individual generally may use the following formula to determine the amount of the converted assets to exclude from income.

$$\frac{\text{Aggregate basis}}{\text{Aggregate IRA balance}} \times \text{Distribution} = \text{Amount excluded from income}$$

**Aggregate basis** includes all nondeductible contributions and after-tax retirement plan rollover contributions made to an IRA owner's Traditional IRAs that the IRA owner has not previously distributed and excluded from income.

**Aggregate IRA balance** includes the total balance of all the IRA owner's IRAs (Traditional and SIMPLE) as of the end of the distribution year, plus any distributions that occurred during the year.

Although individuals may use this simplified formula to determine the taxable amount of a conversion, IRA owners who convert assets to Roth IRAs must complete Form 8606, *Nondeductible IRAs*, to formally calculate and report the taxable amount of the conversion. IRA owners must attach Form 8606 to their tax returns for the year of the conversion. IRA owners should complete this form with the help of their tax advisors.



## Pro Rata

Over the years, Kathy has contributed \$15,000 in nondeductible contributions to her Traditional IRA. Kathy also rolled over her retirement plan assets, including \$10,000 of after-tax assets, to her Traditional IRA. In 2018, Kathy converted \$20,000 from her Traditional IRA. She did not take any other distributions in 2018. On December 31, 2018, her Traditional IRA balance was \$80,000. Kathy calculates the nontaxable portion of the conversion as follows.

$$\frac{\$25,000}{\$100,000} \times \$20,000 = \$5,000$$

Kathy's distribution includes \$5,000 of basis. Because Kathy can exclude \$5,000 from income, the taxable amount of her \$20,000 conversion is \$15,000.

## Roth IRA Loophole

Individuals whose modified adjusted gross income (MAGI) exceeds the Roth IRA income limits are not eligible to make regular Roth IRA contributions.

The Roth IRA loophole allows individuals who do not qualify to contribute to a Roth IRA to make a nondeductible Traditional IRA contribution, and then immediately convert the assets to a Roth IRA.

- If the individual contributes to a new Traditional IRA, and has no other Traditional IRAs, the conversion is generally tax-free.
- If the individual has existing Traditional IRAs that contain basis, a portion of the conversion is generally taxable. The IRA owner must use the pro rata calculation to determine the taxable portion of the conversion.

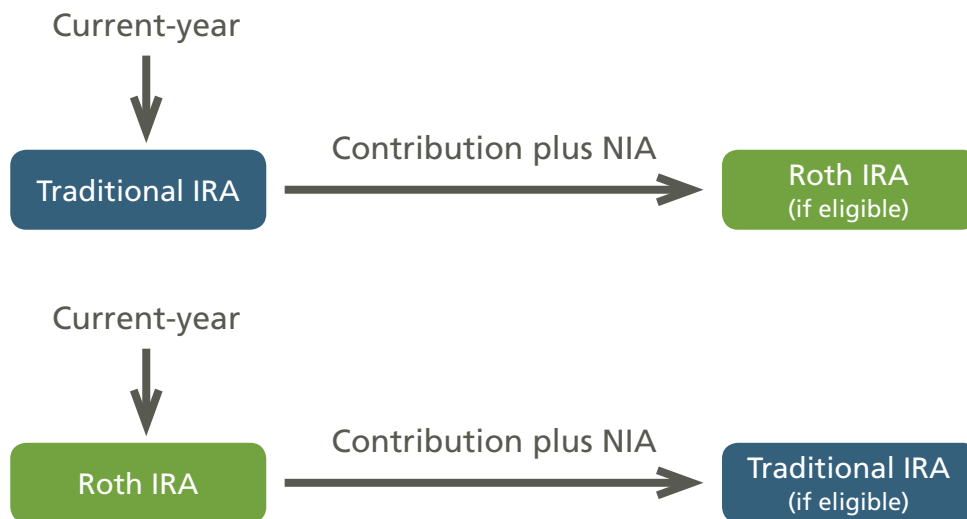
**NOTE:** *Depending on the IRA owner's age and other variables, a conversion could result in a substantial increase in tax-free distributions at retirement. IRA owners with questions should seek competent tax advice.*

## Recharacterizations

Recharacterizations allow IRA owners to move their current-year IRA contribution to another type of IRA, treating the contribution as if it originally were made to that IRA. The net income attributable (NIA) must be moved with the original contribution to the other type of IRA.

The following examples help illustrate why an IRA owner would choose to recharacterize a contribution.

- After making a Roth IRA contribution, an individual discovers that his MAGI makes him ineligible to contribute to a Roth IRA. He is, however, eligible to make a nondeductible Traditional IRA contribution.
- After making a Traditional IRA contribution, an individual discovers that she cannot deduct the contribution. She determines that she may benefit more from contributing to a Roth IRA.
- The Tax Cuts and Jobs Act of 2017, effective January 1, 2018, eliminated recharacterizations of Traditional IRA conversions and employer-sponsored retirement plan-to-Roth IRA rollovers.



## Recharacterization Guidelines

If done correctly, recharacterizations allow IRA owners to treat the original contribution as if it were made to the other type of IRA. In addition, individuals can recharacterize assets that originated in a SIMPLE IRA back to a SIMPLE IRA.

The following requirements apply to recharacterizations.

- Individuals may recharacterize all or part of a contribution, plus NIA\*.
- The tax year of the contribution does not change.
- The IRA owner may not take constructive receipt of the assets.
- Financial organizations do not correct the reporting of the original contribution. They must instead report the recharacterization on additional tax forms (discussed next).
- The IRA owner must notify the financial organizations holding the distributing IRA and the receiving IRA that he is electing to treat the contribution as if it had been made to the receiving IRA.
- After the recharacterization is completed, the election is irrevocable and cannot be changed.
- If multiple regular contributions made to an IRA for the same year are being recharacterized, the owner chooses (by date and dollar amount) which contribution or portion of a contribution is to be recharacterized. If recharacterizing multiple contributions that were consecutive contributions in a series, only one NIA calculation is required using a computation period based on the first contribution in the series. If recharacterizing more than one contribution that is not part of a consecutive series, separate NIA calculations must be made on each.



### *Example*

Marcia made regular contributions of \$300 on the 15th of each month for 2018, and she is recharacterizing \$600 of these contributions on March 1, 2019. Marcia chooses which two of the contributions will be recharacterized. If she chooses the November 15 and December 15 contributions, then the computation period starts immediately before the November 15 contribution and ends immediately before the withdrawal on March 1. Marcia removes \$600 plus the NIA to the contribution.

\*The method for calculating the NIA is discussed in IRA Excess Contributions From A to Z.

## Notifying Financial Organizations

The notification to financial organizations must include

- the type and amount of contribution to IRA 1 that is being recharacterized,
- the date on which the contribution was made to IRA 1,
- the year for which the contribution was made,
- directions to the financial organization of IRA 1 to directly deposit the contribution and the earnings attributable to IRA 2,
- the names of the financial organizations holding IRA 1 and IRA 2, and
- any additional information needed to make the transaction.

Financial organizations may find a recharacterization form helpful in gathering the required election information for a recharacterization.



## IRA RECHARACTERIZATION ELECTION

The term IRA will be used below to mean Traditional IRA and Roth IRA, unless otherwise specified. This form is to be used by an IRA owner to document the elections required for a recharacterization.

### PART 1. IRA OWNER

Name (First/Mi/Last) \_\_\_\_\_  
 Social Security Number \_\_\_\_\_  
 Date of Birth \_\_\_\_\_ Phone \_\_\_\_\_  
 Email Address \_\_\_\_\_  
 Account Number \_\_\_\_\_ Suffix \_\_\_\_\_

#### ACCEPTING ACCOUNT TYPE (Select one)

Traditional IRA  Roth IRA

### PART 2. ACCEPTING IRA TRUSTEE OR CUSTODIAN

To be completed by the IRA trustee or custodian receiving the assets

Name \_\_\_\_\_  
 Address Line 1 \_\_\_\_\_  
 Address Line 2 \_\_\_\_\_  
 City/State/ZIP \_\_\_\_\_  
 Phone \_\_\_\_\_ Organization Number \_\_\_\_\_  
 Contact Name \_\_\_\_\_

### PART 3. ORIGINAL IRA CONTRIBUTION INFORMATION

To be completed by the current IRA trustee or custodian

#### CURRENT TRUSTEE OR CUSTODIAN

Name \_\_\_\_\_  
 Address Line 1 \_\_\_\_\_  
 Address Line 2 \_\_\_\_\_  
 City/State/ZIP \_\_\_\_\_  
 Phone \_\_\_\_\_

#### ORIGINAL CONTRIBUTION

Regular Traditional or Roth IRA Contribution for Tax Year \_\_\_\_\_

#### RECHARACTERIZATION SUMMARY

Original Contribution Amount to be Recharacterized \_\_\_\_\_  
 Original Contribution Date \_\_\_\_\_  
 Net Income Attributable \_\_\_\_\_  
 Total Amount to be Recharacterized \_\_\_\_\_  
 Withdrawal Date \_\_\_\_\_

#### CURRENT ACCOUNT TYPE (Select one)

Traditional IRA  Roth IRA

Account Number \_\_\_\_\_ Suffix \_\_\_\_\_

### PART 4. RECHARACTERIZATION INSTRUCTIONS

#### MAKE PAYABLE TO

\_\_\_\_\_ as  Trustee or  Custodian of \_\_\_\_\_ IRA  
 Name of Accepting Organization Name of IRA Owner

#### ASSET HANDLING (Investments identified below will be liquidated immediately unless otherwise specified in the Special Instructions section.)

Asset Description	Amount to be Recharacterized	Special Instructions
_____	_____	_____
_____	_____	_____
_____	_____	_____

### PART 5. SIGNATURES

I certify that I am authorized to recharacterize these assets from this IRA and that all information provided by me is true and accurate. All decisions regarding this recharacterization are my own. I hereby irrevocably designate this contribution of the assets indicated above as a recharacterization. I assume responsibility for any consequences that may result from this transaction and I agree that the trustee or custodian is not responsible for any consequences that may arise from executing this recharacterization.

The trustee or custodian signing below agrees to accept the assets being recharacterized.

**X** \_\_\_\_\_  
 Signature of IRA Owner or Authorized Individual Date (mm/dd/yyyy)

**X** \_\_\_\_\_  
 Notary Public/Signature Guarantee (If required by the trustee or custodian) Date (mm/dd/yyyy)

**X** \_\_\_\_\_  
 Authorized Signature of Accepting Trustee or Custodian Date (mm/dd/yyyy)

## Recharacterization Reporting

### *IRS Form 1099-R*

The financial organization distributing the recharacterization must report the distribution on Form 1099-R to the IRA owner and the IRS.

Financial organizations must separately report “prior-year” recharacterizations from “same-year” recharacterizations, using different codes in Box 7, *Distribution code(s)*, of Form 1099-R.

9898 <input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-0119 <span style="font-size: 2em; font-weight: bold;">2019</span> Form <b>1099-R</b>		<b>Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.</b>		
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and phone no.		<b>1</b> Gross distribution \$	<b>2a</b> Taxable amount \$		<b>2b</b> Taxable amount not determined <input type="checkbox"/>	Total distribution <input type="checkbox"/>
PAYER'S TIN		<b>2</b> Capital gain (included in box 2a) \$				
RECIPIENT'S TIN		<b>3</b> Employee contributions/ Designated Roth contributions or insurance premiums \$		<b>6</b> Net unrealized appreciation in employer's securities \$		
RECIPIENT'S name		<b>7</b> Distribution code(s)		<b>8</b> Other		
Street address (including apt. no.)		<b>9a</b> Your percentage of total distribution %		<b>9b</b> Total employee contributions %		
City or town, state or province, country, and ZIP or foreign postal code		<b>10</b> Amount allocable to IRR within 5 years \$		<b>11</b> 1st year of desig. Roth contrib.		
Account number (see instructions)		<b>12</b> State tax withheld \$		<b>13</b> State/Payer's state no.		
Date of payment		<b>15</b> Local tax withheld \$		<b>16</b> Name of locality		
FATCA filing requirement <input type="checkbox"/>		<b>17</b> Local distribution \$		<b>14</b> State distribution \$		

Form **1099-R** Cat. No. 14436Q [www.irs.gov/Form1099R](http://www.irs.gov/Form1099R) Department of the Treasury - Internal Revenue Service

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The following information is based on the 2019 *Instructions for Forms 1099-R and 5498*.

- Box 1** Gross distribution amount, includes recharacterized contribution plus NIA
- Box 2a** Enter 0 (zero)
- Box 2b** Do not mark the *Taxable amount not determined* box  
Mark the *Total distribution* checkbox if all the IRA assets were paid out
- Box 7** Enter code R for the recharacterization of an IRA contribution made for 2018 and recharacterized in 2019 (prior-year)  
Enter code N for the recharacterization of an IRA contribution made for 2019 and recharacterized in 2019 (same-year).  
Do not mark the *IRA/SEP/SIMPLE* box.

## IRS Form 5498

The financial organization receiving the assets must report the recharacterization on Form 5498 to the IRA owner and the IRS.

2019		<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED	
TRUSTEE'S or ISSUER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code		1 IRA contributions (other than amounts in boxes 2-4, 8-10, 13a, and 14a) \$	OMB No. 1545-0747 <b>2019</b> Form 5498
TRUSTEE'S or ISSUER'S TIN		2 Rollover contributions \$	IRA Contribution Information
PARTICIPANT'S TIN		3 Roth IRA conversion amount \$	
PARTICIPANT'S name		4 Recharacterized contributions \$	Copy A For Internal Revenue Service Center File with Form 1096.
Street address (including apt. no.)		5 FMV of account \$	
City or town, state or province, country, and ZIP or foreign postal code		6 Life insurance cost included in box 1 \$	For Privacy Act and Paperwork Reduction Act Notice, see the 2019 General Instructions for Certain Information Returns.
7 IRA <input type="checkbox"/> SEP <input type="checkbox"/> SIMPLE <input type="checkbox"/> Roth IRA <input type="checkbox"/>		8 SEP contributions \$	
8 SEP contributions \$		9 SIMPLE contributions \$	
10 Roth IRA contributions \$		11 Check if RMD for 2020 <input type="checkbox"/>	
12a RMD date		12b RMD amount \$	13b Year   13c Code
13a Postponed/late contrib. \$		14a Repayments \$	
14a Repayments \$		14b Code	15b Code(s)
15a FMV of certain specified assets \$		15b Code(s)	

Form 5498      Cat. No. 50010C      www.irs.gov/Form5498      Department of the Treasury - Internal Revenue Service

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The following information is based on the 2019 *Instructions for Forms 1099-R and 5498*.

- Box 4**    Enter all recharacterized amounts
- Box 5**    Enter the December 31 balance
- Box 7**    Mark the appropriate box



*Conversions and Recharacterizations*

**Answer the following questions.**

1. Leticia made a contribution to her Traditional IRA in 2016 that she would now like to move to her Roth IRA. Which type of transaction could she complete? Select all that apply.

**Transfer      Rollover      Conversion      Recharacterization**

2. Rico made a contribution to his Traditional IRA in 2019 that he would now like to move to his Roth IRA. Which type of transaction could he complete? Select all that apply.

**Transfer      Rollover      Conversion      Recharacterization**

3. Sean Boswell, age 56, directly converted \$67,000 from his Traditional IRA to his Roth IRA on October 17, 2019. He elected to waive withholding and closed his Traditional IRA after the conversion. On December 31, 2019, his Roth IRA balance is \$74,125.68. He has no other activity in his Roth IRA. Complete his tax forms for the conversion.

9898		<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-0119		2019		Form 1099-R		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.	
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and phone no.				1 Gross distribution						Copy A For Internal Revenue Service Center File with Form 1096.	
				2a Taxable amount							
PAYER'S TIN				RECIPIENT'S TIN		3 Capital gain (included in box 2a)		4 Federal income tax withheld		For Privacy Act and Paperwork Reduction Act Notice, see the 2019 General Instructions for Certain Information Returns.	
RECIPIENT'S name				5 Employee contributions/ Designated Roth contributions or insurance premiums		6 Net unrealized appreciation in employer's securities					
Street address (including apt. no.)				7 Distribution code(s)		IRA/ SEP/ SIMPLE <input type="checkbox"/>		8 Other			
City or town, state or province, country, and ZIP or foreign postal code				9a Your percentage of total distribution		9b Total employee contributions					
10 Amount allocable to IRR within 5 years		11 1st year of desig. Roth contrib.		FATCA filing requirement <input type="checkbox"/>		12 State tax withheld		13 State/Payer's state no.		14 State distribution	
Account number (see instructions)				Date of payment		15 Local tax withheld		16 Name of locality		17 Local distribution	

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2828		<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-0747		2019		Form 5498		IRA Contribution Information	
TRUSTEE'S or ISSUER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code				1 IRA contributions (other than amounts in boxes 2-4, 8-10, 13a, and 14a)						Copy A For Internal Revenue Service Center File with Form 1096.	
				2 Rollover contributions							
TRUSTEE'S or ISSUER'S TIN		PARTICIPANT'S TIN		3 Roth IRA conversion amount		4 Recharacterized contributions		5 FMV of account		For Privacy Act and Paperwork Reduction Act Notice, see the 2019 General Instructions for Certain Information Returns.	
								6 Life insurance cost included in box 1			
PARTICIPANT'S name				7 IRA <input type="checkbox"/> SEP <input type="checkbox"/> SIMPLE <input type="checkbox"/> Roth IRA <input type="checkbox"/>		8 SEP contributions		9 SIMPLE contributions			
Street address (including apt. no.)				10 Roth IRA contributions		11 Check if RMD for 2020 <input type="checkbox"/>		12a RMD date		12b RMD amount	
City or town, state or province, country, and ZIP or foreign postal code				13a Postponed/late contrib.		13b Year		13c Code			
				14a Repayments		14b Code					
Account number (see instructions)				15a FMV of certain specified assets		15b Code(s)					

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4. Mia Toretto, age 41, contributed \$5,500 to her Traditional IRA on July 7, 2019. She recharacterized the contribution, along with \$2.50 in NIA, to her Roth IRA on August 9, 2019. The recharacterization did not close her Traditional IRA. On December 31, 2019, her Roth IRA balance is \$12,147.56. She has no other activity in her Roth IRA. Complete her tax forms for the recharacterization.

9898			<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-0119		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.	
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and phone no.			1 Gross distribution		2019		Form 1099-R	
			\$					
PAYER'S TIN			2a Taxable amount		Total distribution <input type="checkbox"/>		Copy A For Internal Revenue Service Center	
			\$					
RECIPIENT'S TIN			3 Capital gain (included in box 2a)		4 Federal income tax withheld		File with Form 1096.	
			\$		\$			
RECIPIENT'S name			5 Employee contributions/ Designated Roth contributions or insurance premiums		6 Net unrealized appreciation in employer's securities		For Privacy Act and Paperwork Reduction Act Notice, see the 2019 General Instructions for Certain Information Returns.	
			\$		\$			
Street address (including apt. no.)			7 Distribution code(s)		8 Other			
City or town, state or province, country, and ZIP or foreign postal code			9a Your percentage of total distribution %		9b Total employee contributions %			
10 Amount allocable to IRR within 5 years		11 1st year of desig. Roth contrib.	FATCA filing requirement <input type="checkbox"/>	12 State tax withheld		13 State/Payer's state no.		14 State distribution
\$				\$				\$
Account number (see instructions)			Date of payment		15 Local tax withheld		16 Name of locality	
					\$		17 Local distribution	
					\$		\$	

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2522			<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-0747		IRA Contribution Information	
TRUSTEE'S or ISSUER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code			1 IRA contributions (other than amounts in boxes 2-4, 8-10, 13a, and 14a)		2019		Form 5498	
			\$					
TRUSTEE'S or ISSUER'S TIN			2 Rollover contributions		4 Recharacterized contributions		Copy A For Internal Revenue Service Center	
			\$					
PARTICIPANT'S TIN			3 Roth IRA conversion amount		6 Life insurance cost included in box 1		File with Form 1096.	
			\$		\$			
PARTICIPANT'S name			7 IRA <input type="checkbox"/> SEP <input type="checkbox"/>		SIMPLE <input type="checkbox"/> Roth IRA <input type="checkbox"/>		For Privacy Act and Paperwork Reduction Act Notice, see the 2019 General Instructions for Certain Information Returns.	
			8 SEP contributions		9 SIMPLE contributions			
Street address (including apt. no.)			10 Roth IRA contributions		11 Check if RMD for 2020 <input type="checkbox"/>			
City or town, state or province, country, and ZIP or foreign postal code			12a RMD date		12b RMD amount			
			\$		\$			
			13a Postponed/late contrib.		13b Year		13c Code	
			\$					
			14a Repayments		14b Code			
			\$					
Account number (see instructions)			15a FMV of certain specified assets		15b Code(s)			
			\$					

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## Exercise Answers

### *Advanced Portability*

Dominic and Leticia recently divorced. As part of the divorce decree, Dominic was ordered to give Leticia one-half of his Traditional IRA assets. Leticia is in the financial organization requesting that the assets be transferred into her savings account at the financial organization.

1. Can the assets be transferred into her savings account?

**The assets cannot be directly transferred to her savings account. The assets must first go into an IRA.**

2. What is needed before the transfer can be completed?

**The financial organization must take the following steps before it can complete the transfer.**

1. **Obtain the divorce decree.**
2. **Depending on what the divorce decree dictates, transfer or distribute and roll over the assets from Dominic's IRA to Leticia's IRA.**
3. **Have Leticia sign a withdrawal form to move the assets from her IRA to her savings account.**



### *Conversions and Recharacterizations*

1. Leticia made a contribution to her Traditional IRA in 2016 that she would now like to move to her Roth IRA. Which type of transaction could she complete? Select all that apply.

**Transfer**

**Rollover**

**Conversion**

**Recharacterization**

2. Rico made a contribution to his Traditional IRA in 2019 that he would now like to move to his Roth IRA. Which type of transaction could he complete? Select all that apply.

**Transfer**

**Rollover**

**Conversion**

**Recharacterization**

3. Sean Boswell, age 56, directly converted \$67,000 from his Traditional IRA to his Roth IRA on October 17, 2019. He elected to waive withholding and closed his Traditional IRA after the conversion. On December 31, 2019, his Roth IRA balance is \$74,125.68. He has no other activity in his Roth IRA. Complete his tax forms for the conversion.

9898		<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-0119		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and phone no.		1 Gross distribution	2019		Form 1099-R	
		\$ 67000				
PAYER'S TIN		2a Taxable amount	Total distribution <input checked="" type="checkbox"/>		Copy A For Internal Revenue Service Center	
		\$ 67000				
RECIPIENT'S TIN		3 Capital gain (included in box 2a)	4 Federal income tax withheld		File with Form 1096.	
RECIPIENT'S name		\$	\$			
SEAN BOSWELL		5 Employee contributions/ Designated Roth contributions or insurance premiums	6 Net unrealized appreciation in employer's securities		For Privacy Act and Paperwork Reduction Act Notice, see the 2019 General Instructions for Certain Information Returns.	
Street address (including apt. no.)		\$	\$			
City or town, state or province, country, and ZIP or foreign postal code		7 Distribution code(s)	8 Other			
		2	IRA/SEP/SIMPLE <input checked="" type="checkbox"/>			
10 Amount allocable to IRR within 5 years		9a Your percentage of total distribution	9b Total employee contributions			
\$	11 1st year of desig. Roth contrib.	%	%			
FATCA filing requirement <input type="checkbox"/>		12 State tax withheld	13 State/Payer's state no.		14 State distribution	
Account number (see instructions)		\$	\$		\$	
Date of payment		15 Local tax withheld	16 Name of locality		17 Local distribution	
		\$			\$	

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2828		<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-0747		IRA Contribution Information
TRUSTEE'S or ISSUER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code		1 IRA contributions (other than amounts in boxes 2-4, 8-10, 13a, and 14a)	2019		Form 5498	
		\$				
TRUSTEE'S or ISSUER'S TIN		2 Rollover contributions	Copy A For Internal Revenue Service Center		File with Form 1096.	
		\$				
PARTICIPANT'S TIN		3 Roth IRA conversion amount	4 Recharacterized contributions			
		\$ 67000	\$			
PARTICIPANT'S name		5 FMV of account	6 Life insurance cost included in box 1		For Privacy Act and Paperwork Reduction Act Notice, see the 2019 General Instructions for Certain Information Returns.	
SEAN BOSWELL		\$ 74125.68	\$			
Street address (including apt. no.)		7 IRA <input type="checkbox"/> SEP <input type="checkbox"/> SIMPLE <input type="checkbox"/> Roth IRA <input checked="" type="checkbox"/>	9 SIMPLE contributions			
City or town, state or province, country, and ZIP or foreign postal code		\$	\$			
10 Roth IRA contributions		11 Check if RMD for 2020	12b RMD amount			
\$		<input type="checkbox"/>	\$			
12a RMD date		13a Postponed/late contrib.	13b Year		13c Code	
		\$				
14a Repayments		14b Code				
\$						
Account number (see instructions)		15a FMV of certain specified assets	15b Code(s)			
		\$				

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4. Mia Toretto, age 41, contributed \$5,500 to her Traditional IRA on July 7, 2019. She recharacterized the contribution, along with \$2.50 in NIA, to her Roth IRA on August 9, 2019. The recharacterization did not close her Traditional IRA. On December 31, 2019, her Roth IRA balance is \$12,147.56. She has no other activity in her Roth IRA. Complete her tax forms for the recharacterization.

9898		<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-0119		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.	
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and phone no.		1 Gross distribution		2019		Form 1099-R	
		\$ 5502.50					
		2a Taxable amount				Copy A For Internal Revenue Service Center	
		\$ 0					
PAYER'S TIN		RECIPIENT'S TIN		3 Capital gain (included in box 2a)		4 Federal income tax withheld	
				\$		\$	
RECIPIENT'S name		5 Employee contributions/ Designated Roth contributions or insurance premiums		6 Net unrealized appreciation in employer's securities		For Privacy Act and Paperwork Reduction Act Notice, see the 2019 General Instructions for Certain Information Returns.	
MIA TORETTO		\$		\$			
Street address (including apt. no.)		7 Distribution code(s)		8 Other			
		N					
City or town, state or province, country, and ZIP or foreign postal code		9a Your percentage of total distribution		9b Total employee contributions			
		%		\$			
10 Amount allocable to IRR within 5 years		11 1st year of desig. Roth contrib.		12 State tax withheld		13 State/Payer's state no.	
\$		<input type="checkbox"/>		\$		\$	
Account number (see instructions)		Date of payment		15 Local tax withheld		16 Name of locality	
				\$		\$	
				\$		\$	

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2828		<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-0747		IRA Contribution Information	
TRUSTEE'S or ISSUER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code		1 IRA contributions (other than amounts in boxes 2-4, 8-10, 13a, and 14a)		2019		Form 5498	
		\$					
TRUSTEE'S or ISSUER'S TIN		PARTICIPANT'S TIN		2 Rollover contributions		Copy A For Internal Revenue Service Center	
				\$			
PARTICIPANT'S name		3 Roth IRA conversion amount		4 Recharacterized contributions		For Privacy Act and Paperwork Reduction Act Notice, see the 2019 General Instructions for Certain Information Returns.	
MIA TORETTO		\$		\$ 5502.50			
Street address (including apt. no.)		5 FMV of account		6 Life insurance cost included in box 1			
		\$ 12147.56		\$			
City or town, state or province, country, and ZIP or foreign postal code		7 IRA <input type="checkbox"/> SEP <input type="checkbox"/>		SIMPLE <input type="checkbox"/> Roth IRA <input checked="" type="checkbox"/>			
		8 SEP contributions		9 SIMPLE contributions			
		\$		\$			
10 Roth IRA contributions		11 Check if RMD for 2020		12b RMD amount			
\$		<input type="checkbox"/>		\$			
12a RMD date		13a Postponed/late contrib.		13b Year		13c Code	
14a Repayments		14b Code		15a FMV of certain specified assets		15b Code(s)	
\$				\$			

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Job Aid

Transfer and Rollover Chart							
Type of Transaction	Source of assets	Deposited into	IRA owner access	60-day rule applies	One-per-12-month rule applies	Mandatory 20% withholding	Reported to the IRS
<b>Transfer</b>	Traditional IRA	Traditional IRA	No	No	No	No	No
	Roth IRA	Roth IRA	No	No	No	No	No
<b>Rollover</b>	Traditional IRA	Traditional IRA	Yes	Yes	Yes	No	Yes
	Roth IRA	Roth IRA	Yes	Yes	Yes	No	Yes
<b>Direct Rollover</b>	Employer-Sponsored Retirement Plan	Traditional IRA	No	No	No	No	Yes
		Roth IRA*	No	No	No	No	Yes
	Designated Roth Account	Roth IRA	No	No	No	No	Yes
	Traditional IRA	Employer-Sponsored Retirement Plan	No	No	No	No	Yes
<b>Indirect Rollover</b>	Employer-Sponsored Retirement Plan	Traditional IRA	Yes	Yes	No	Yes	Yes
		Roth IRA*	Yes	Yes	No	Yes	Yes
	Designated Roth Account	Roth IRA	Yes	Yes	No	Maybe**	Yes
	Traditional IRA	Employer-Sponsored Retirement Plan	Yes	Yes	No	No	Yes

\*This transaction is taxed as a conversion but reported as a rollover.

\*\*Roth IRA owners should contact their designated Roth account plan administrator.