WELCH & FORBES LLC
EST. 1838

Retirement Plan Rollovers and Transfers

Retirement plan rollovers and trustee to trustee transfers often are misunderstood by individuals. They both involve moving retirement assets from one plan to another but differ in how they are executed and reported on an individual's income tax return.

A tax free **rollover** occurs when retirement assets are moved from one retirement plan to another retirement plan, not necessarily between the same types of plans, such as when assets are moved from a 401(k) plan to a Rollover IRA account (1). A **transfer** occurs when retirement assets are moved directly between *like* plans, such as from a Traditional IRA to another Traditional IRA (2).

Rollovers can be either **indirect** or **direct**, may require a 20% federal income tax withholding, will require a Form 1099R to be issued to the account owner and are required to be reported on the individual's income tax return, although they usually are not taxable.

An **indirect rollover** occurs when individually you receive retirement assets, or when the check is written individually to you which you can negotiate, and you roll over either all or a portion of the assets into another eligible retirement plan within 60 days of receiving the distribution. The problem with **indirect rollovers** is that the original retirement plan will withhold 20% federal income taxes from the funds being transferred (3), and you will be required to come up with this 20% withholding in order to avoid a portion of the distribution being taxable to you, and possibly subject to additional early withdrawal penalties.

A **direct rollover** occurs when retirement assets are either wired or mailed directly to the new retirement plan, or a check is given to the account owner, made payable only to the new retirement plan, and not the individual, and the individual delivers the check to the new plan. In a **direct rollover** the individual cannot negotiate the funds received. Thus because the individual does not take control of the funds, there is no 20% federal income tax withholding required (4).

A **transfer** occurs when retirement assets are moved directly between *like* plans, usually from one trustee to another trustee, without the individual taking control of the assets (5). The individual initiates the process, works in setting up the new plan account and fills out the necessary transfer forms to execute the transaction. The individual never takes constructive receipt of the retirement funds. No reporting is required by an individual on his or her income tax return as no Form 1099R is required to be issued by the funding trustee (6). Also, because the transfer is not a rollover it is not affected by the 1-year waiting period required between rollovers (7).

Thus whenever possible, the use of either a **direct rollover** or a **transfer** may be considered preferable to avoid federal income tax withholding, and the need for reporting if a **transfer.**

Finally, consult with your tax advisor prior to making a rollover or a transfer.

If you are in need of assistance with coordinating or managing the assets in your retirement accounts, contact Ed Sullivan, Vice President, at 617-557-9800 or esullivan@welchforbes.com.

References:

1. (IRC section 402(c)(1)
2. (IRS Publication 590-A, page 21)
3. (IRC section 3405(c)(1)(B)
4. (IRC section 3405(c)(2)
5. (IRS Publication 590-A, page 21)
6. (RIA Federal Tax Coordinator Client Letters Paragraph 1300)
7. (IRS Publication 590-A, page 21)