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Printer-Friendly Version

3617. Can an individual roll over or convert a traditional IRA or other eligible retirement plan into a Roth IRA?

Yes.

A "qualified rollover contribution" can be made from a traditional IRA or any eligible retirement plan (Q 3883) to a Roth IRA.[1] A rollover was not permitted prior to 2010 if a taxpayer had adjusted gross income ("AGI") of more than $100,000 for the taxable year of the distribution to which the rollover related or if the taxpayer was a married individual filing a separate return.[2]

Amounts that are held in a SEP or a SIMPLE IRA that have been held in the account for two or more years also may be converted to a Roth IRA.[3]

The taxpayer must include in income the amount of the distribution from the traditional IRA or other eligible retirement plan that would be includable if the distribution were not rolled over.[4] (See Q 3625 for taxation of amounts distributed from such IRAs.) Thus, if only deductible contributions were made to an eligible retirement plan, the entire amount of the distribution would be includable in income in the year rolled over or converted. (Special rules apply for conversions made in 2010.) While the 10 percent early distribution penalty (Q 3629) does not apply at the time of the conversion to a Roth IRA, it does apply to any converted amounts distributed during the five-year period beginning with the year of the conversion.[5]

Planning Point: Anybody could make a Roth IRA conversion for 2010. Income from a conversion in 2010 could be recognized one-half in 2011 and one-half in 2012, rather than all in 2010.

When an individual retirement annuity is converted to a Roth IRA, or when an individual retirement account that holds an annuity contract as an asset is converted to a Roth IRA, the amount that is deemed distributed is the fair market value of the annuity contract on the date of the (deemed) distribution. If, in converting to a Roth IRA, an IRA annuity contract is completely surrendered for its cash value, regulations provide that the cash received will be the conversion amount.[6]

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