ED SLOTT'S IRA ADVISOR

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Tax & Estate Planning for Your Retirement Savings

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Join the Retirement Planning Conversation

Learning from Other People's Mistakes

Real-life court cases and IRS rulings reveal egregious errors and complete misunderstandings of retirement account rules. Oftentimes this confusion leads to disastrous outcomes. IRA and retirement plan guidelines can be extremely complicated. Violating any number of perceived minor offenses can cascade into colossal failures.

Neglecting the details, failing to seek professional help or, what's worse, following misinformed "expert guidance" can all lead to destructive retirement decisions. Fortunately, we can use other people's blunders to educate ourselves and avoid our own mishaps.

> *"It's good to learn from your mistakes. It's better to learn from other people's mistakes."*
>
> -Warren Buffett

Bobrow Case: One Rollover per Year

The Bobrow case (Alvan L. Bobrow, et ux. v. Commissioner, TC Memo 2014-21, Docket No. 7022-11, January 28, 2014.) resulted in a more restrictive interpretation of the one-rollover-per-year rule — *a total game changer for IRA transactions.* Alvan Bobrow took numerous distributions from multiple IRAs and rolled them over at different times. Identifying which dollars from which IRA were being repaid created confusion and resulted in the IRS determining that the 60-day rollover window for at least one of those distributions was missed. Bobrow's rollover timing errors changed the rules for everyone.

In a decision that had wide-ranging ramifications for financial advisors and tax professionals alike, the Tax Court ruled that the one-per-year rollover rule applies to all of an individual's IRAs, not to each IRA account separately. While the ruling directly conflicted with a long-standing IRS position in previous PLRs and Publication 590 that indicted the rule applied separately to each IRA, the court was unapologetic. In rejecting a motion to reconsider its decision, the court said, "Taxpayers rely on IRS guidance at their own peril."

When an account owner takes funds from his IRA in a distribution payable to himself and contributes those funds to the same or another IRA, that is a 60-day rollover. A person may not roll over a distribution that is received within 12 months of a prior distribution that was rolled over. If the once-per-year rollover rule is violated, the distribution is not eligible for a rollover. If it is deposited to an IRA, it is considered an excess contribution.

To prevent rollover problems, account owners should be encouraged to avoid 60-day rollovers altogether.

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