

# ROTH IRA DISTRIBUTION & CONVERSION

## FREQUENTLY ASKED QUESTIONS (FAQS)

Have questions?  
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### What are the IRS "ordering rules" when I take money out of a Roth IRA?



### What are the potential tax or 10% penalty implications of a Roth IRA distribution?

ORDER OF ASSETS	BEFORE 59.5		AFTER 59.5	
	and BEFORE 5 Years	and AFTER 5 Years	and BEFORE 5 Years	and AFTER 5 Years
Contributions	✓	✓	✓	✓
Taxable Conversion	ⓘ 10% Penalty	✓	✓	✓
Non-Taxable Conversion (Non-Ded. IRA)	✓	✓	✓	✓
Earnings	ⓘ - Ordinary Income Tax - 10% Penalty	ⓘ - Ordinary Income Tax - 10% Penalty	ⓘ Ordinary Income Tax	✓

✓ No Tax or Penalty ⓘ Tax or Penalty May Apply

[Check out our "Retirement Junk Drawer" Presentation!](#)

#### What is a Qualified Distribution from a Roth IRA?

- Distribution is made at least 5 years from the beginning of the first taxable year for which the individual made any contributions to any Roth IRA (5 year clock) **AND**:
- One of the following applies (a triggering event):
  - The owner is age 59.5 or older
  - Death or disability
  - The distribution is for a qualified first time home buyer (\$10k max over the owner's lifetime)

#### What are the exceptions to the 10% penalty?

- Age 59 1/2
- Death or Disability
- Series of substantial equal periodic payments
- Qualified first time home purchase
- Deductible medical expenses
- Health insurance premiums while unemployed
- Qualified reservist distribution
- Qualified higher education expenses
- Qualified birth or adoption expenses
- Tax levies
- S2.0: PS Officers w/ 25 YOS
- S2.0: Personal Emergency
- S2.0: Domestic Abuse
- S2.0 refers to Secure 2.0.
- [Read more about it!](#)

### When does the "5 Year Clock" start? With the FIRST dollar in your FIRST Roth IRA

Scenario: What if you...	IRS interprets your "clock" to have started...
Contribute or convert into a Roth IRA for the first time on July 20th	January 1 of that <u>same</u> tax year
Contribute to a Roth IRA for the first time on April 8th for a prior tax-year contribution	January 1 of the <u>prior</u> tax year

### What are some planning tips and best-practices when giving guidance on Roth IRA's?

Roth 401(k)	<ul style="list-style-type: none"> <li>■ Each Roth 401(k) has a separate 5 year rule from other Roth 401(k)'s and Roth IRA's</li> <li>■ Roth 401(k)'s have RMD's and Roth IRA's do not until the end of 2023. Starting in 2024, SECURE 2.0 removes Roth 401(k) RMD's (Section 325)</li> <li>■ Time invested within a Roth 401(k) does NOT transfer to a Roth IRA in regards to the 5 year rule</li> </ul>
Roth IRA	<ul style="list-style-type: none"> <li>■ The 5 year clock doesn't start until money is deposited (open a Roth and fund it!)</li> </ul>
Taxable Roth Conversions	<ul style="list-style-type: none"> <li>■ No limit on the \$ amount converted but it is important to consider the tax impact in the year converted</li> <li>■ Best practice is to pay for the taxes due on a Roth conversion with non-qualified funds (don't withhold)</li> <li>■ Completed conversions cannot be reversed or re characterized (2017 Tax Cuts and Jobs Act)</li> <li>■ Convert growth positions in-kind, in low tax bracket years and/or when markets are temporarily down!</li> </ul>
Non-Deductible Roth Conversions	<ul style="list-style-type: none"> <li>■ Reminder to file IRS Form 8606 when contributing to a non-deductible Traditional IRA</li> <li>■ <a href="#">Review the "Aggregation" rule before converting non-deductible IRA balances to Roth</a></li> </ul>