OCTOBER 18-21, 2015 | GAYLORD NATIONAL
NATIONAL HARBOR, MD

Roth Conversions

Bill Grossman, ERPA, QPA, GFS, APA
McKay Hochman Consulting,
Provided by DST

ASPPA ANNUAL CONFERENCE • 2015 • AHEAD OF THE CURVE • MAKING RETIREMENT PLANS WORK

asppaannual.org

Agenda

- Conversion Background
- In-plan Roth Conversions:
  - SBJA, Notice 2010-84
  - ATRA, Notice 2013-74
- Designated Roth and Roth IRA
- N. 2014-54: After-tax Contributions and Impact on IRRs and Roth IRA Rollovers
- Handling Plan Sponsor and Participant FAQs
- For Reference Form 1099-R Reporting

Conversion of Pre-Tax to Roth IRA

- Traditional IRA Conversion to Roth IRA as of 1998
  - AGI < $100,000; if married file jointly
  - 401(k) roll ➔to traditional IRA ➔convert to a Roth IRA
- 2008, 401(k) direct rollover ➔to Roth IRA
  - AGI < $100,000; if married file jointly
- TIPRA* removed AGI as of 2010,
  - Leakage of 401(k) assets: individuals (mostly HCEs) able to do a conversion to a Roth IRA for the first time ever

*Tax Increase Prevention and Reconciliation Act of 2005

Conversion of Pre-Tax to 401(k) Roth

- From 2006 until September 27, 2010,
  - Pre-tax §401(k) balances were not allowed to be converted to a 401(k) Roth account.
- Small Business Jobs Act of 2010 created in-plan Roth Rollover conversion to designated Roth
- American Taxpayer Relief Act of 2012 created in-plan Roth Transfer as of 2013

Small Business Jobs Act of 2010
(SBJA)
September 27, 2010;
IRS Notice 2010-84

American Taxpayer Relief Act of 2012
(ATRA)
January 2, 2013;
IRS Notice 2013-74

SBJA: Conversion Only for Plans With Designated Roth Provision

- **Conversion ➔ only for plan with a Roth account provision**
  - i.e. 401(k), 403(b), 457(b) governmental plans
  - May not have Roth provision only for conversions
  - IRRs not allowed in plans that may not have Roth
    - E.g. profit sharing, money purchase

- IRR Effective upon enactment ➔ Sept. 27, 2010
- Available for participants or surviving spouses

SBJA IRR Requires Distributable Event

- Between 2010 and 2012, IRR requires a distributable event
  - 2010 conversions only: Tax in 2010; or half in 2011, half in 2012
- Any distributable event that is eligible for rollover is valid
- Withdrawal restrictions apply
  - In-service not available until after age 59½ for:
    - elective deferrals, safe harbor 401(k) contributions, QNECs, QMACs
- In-service for employer NEC or match
  - 2-year rule (Contribution must be in plan for 2 years)
  - 5-year of participation rule
- New plan provision to limit an in-service withdrawal for only Roth conversions
  - In joint committee report, and IRS Notice 2010-84

IRRs Not Treated as a Distribution for the Following

1. **Plan loan** transferred to Roth account (without changing its repayment schedule) is not a new loan;
2. **Spousal consent is not required** to make an IRR;
3. **IRRs counted as part of Vested Account Balance** when determining if participant's VAB exceeds $5,000;
4. **Optional forms of benefit may not be eliminated**.
   - Participant's distribution right prior to IRR cannot be eliminated after electing an IRR. (Q/A-3)

ASPPA AHEAD OF THE CURVE 2015 ASPPA ANNUAL CONFERENCE

Tax Consequences
Recapture Tax

- For IRRs: Under age 59½, 10% penalty waived
- RECAPTURE TAX → The 10% will be applied if the IRR conversion is withdrawn before 5 years
- Recapture tax will not apply if:
  - Attainment of age 59½
  - Distribution due to severance from service in year age 55 attained or later,
  - A known exception to the penalty occurs

Undoing Roth Conversion
Recharacterization

- **Roth IRA conversion → reversed by a "recharacterization"**
- Recharacterization → individual changes converted Roth IRA (with earnings) back to a traditional IRA
  - amount recharacterized remains tax deferred
- Recharacterization Deadline
  - Taxpayers have until the **due date of federal income tax return (including extensions)** for year Roth IRA conversion
- **A conversion from 401(k) to a Roth IRA may NOT be recharacterized back to a 401(k) plan**
  - It **may be recharacterized to a traditional IRA**

ASPPA AHEAD OF THE CURVE 2015 ASPPA ANNUAL CONFERENCE

Recharacterization Example

- Feb. 2008: John converts $250,000 traditional IRA → to Roth IRA.
  - By Feb. 2009, account balance has dropped to $150,000.
- If John takes no further action, he would have to include the $250,000 conversion amount as income for the 2008 tax year, even though it is now worth only $150,000.
- If John recharacterizes his Roth IRA back into a traditional IRA, the conversion and recharacterization will have no tax consequences for the 2008 tax year.
- John may again convert this money into a Roth IRA at a later time.

"Recharacterization" NOT Permitted for IRR

- A conversion from a traditional IRA to a Roth IRA may be recharacterized prior to the individual's tax filing deadline, including extensions
- There are no recharacterizations of IRRs (within plan conversions) back to pretax qualified plan sources

ASPPA AHEAD OF THE CURVE 2015 ASPPA ANNUAL CONFERENCE

Other Considerations

- **Individual must have ability to pay tax on amount converted**
  - Withdrawing additional amount above conversion and having 100% withholding
    - Requires distributable event
    - If under 59½, distribution above conversion is subject to 10% penalty
- Disclosures
  - Disclosure to participant in SMM of plan amendment
  - Of taxes due upon conversion, 402(f) Notice

ASPPA AHEAD OF THE CURVE 2015 ASPPA ANNUAL CONFERENCE

Series of Conversions

- An individual may convert a small amount each year instead of converting all at once
  - This enables an individual to spread taxation out
  - Multiple conversion tracking for 5 year recapture tax
  - Required for Form 1099-R, Box 10 is for reporting IRRs withdrawn before 5 years have passed
    - From the Form 1099-R instructions for reporting distributions of in-plan conversions before 5 years have elapsed

ASPPA AHEAD OF THE CURVE 2015 ASPPA ANNUAL CONFERENCE

Measuring Five-taxable-year Recapture Period

- **Recapture tax's 5-taxable-year period**
  - starts with the first day of participant's tax year in which in-plan Roth conversion made, usually Jan 1.
  - ends on last day of individual's 5th taxable year after conversion.
  - Amounts may be rolled to another Roth without penalty. If withdrawn from subsequent Roth before end of 5-year period, 10% recapture tax will apply.
- A separate designated Roth sub-account should be established for each in-plan Roth conversion in order to appropriately apply the recapture tax or acceleration of income rules.

Plan Amendment

- Plan must have Roth provision to permit IRRs
  - Notice 2010-84 Q/A-20: To have a qualified Roth contribution program in place means to have deferral elections permitting Roth deferrals available at the point when the IRR is to be implemented.
- DOCUMENT AMENDMENTS
  - SBJA ➔ snap-on to EGTTRA document, built into PPA document
  - ATRA ➔ snap-on amendment to the EGTRRA & PPA document

ASPPA AHEAD OF THE CURVE 2015 ASPPA ANNUAL CONFERENCE

Notice 2013-74
IRR Rules for ATRA and SBJA

2013 In-plan Roth Transfers: No Distributable Event Required

- As of January 1, 2013, a distributable event is not required to make an IRR
  - Section 902 of American Taxpayer Relief Act of 2012, signed into law on January 2, 2013.
- ATRA added an IRR via a “transfer” option in addition to the IRR option from the Small Business Jobs Act of 2010.

ASPPA AHEAD OF THE CURVE 2015 ASPPA ANNUAL CONFERENCE

N. 2013-74, ATRA & SBJA IRR Rules

- Otherwise Nondistributable Amounts (ONA)
  - Sources/Amounts not eligible to be distributed but that may be converted by an in-plan Roth rollover (aka Transfer)
  - ATRA Section 903 used this term
- Otherwise Distributable Amounts (ODA)
  - Sources/Amounts eligible for distribution that could be converted under in-plan Roth Rollover guidance from SBJA 2010

Otherwise Nondistributable Amounts

- Otherwise Nondistributable Amounts (ONAs)
  - Elective deferrals prior to age 59½, plus earnings
  - Matching contributions, plus earnings
  - Safe harbor 401(k) contributions prior to 59½, plus earnings
  - QNECs, QMACs, plus earnings
  - Annual deferrals in Gov't. 457(b), including the federal government's Thrift Savings Plan
  - Money purchase plan accounts that were transferred into a 401(k) plan

ASPPA AHEAD OF THE CURVE 2015 ASPPA ANNUAL CONFERENCE

ATRA IRR Rules for ONAs: Plan Options

- **A plan may restrict:**
  - **the type of contributions eligible for IRR**
  - **the frequency of IRRs**
- Subject to 401(a)(4) Benefits, Rights & Features Testing
- A plan design could provide that only Otherwise Distributable Amounts are eligible for IRR (i.e. use only the SBJA IRR rules under N. 2010-84)

Notice 2013-74: Other Rules

- IRR = not a protected benefit
- IRR = taxable event triggering net unrealized appreciation
- IRR = related rollover for top heavy purposes

Designated Roth and Roth IRA

Should Individual Make a Roth Deferral or a Roth IRA Contribution?

- Designated Roth may receive match
- No income limitations for eligibility to contribute to designated Roth (Roth IRA has income limitations)
  - Therefore, higher income employees will be able to contribute to Roth 401(k)

Pro-Rata Distributions, Not Ordering

- Roth 401(k), 403(b) and gov't. 457(b) do not have the same distribution ordering rules as a Roth IRA
- Roth IRA: you can take after-tax contributions out first and leave the earnings
- Designated Roth plans: you must withdraw pro-rata (Roth and earnings) of non-qualified distributions

Roth IRA "Ordering Rules"

- Roth IRAs have an ordering of which sources are to be distributed first (instead of pro-rata)
  - Note: All Roth IRAs are aggregated for these rules (Roth and traditional IRAs are not aggregated)
- First: Roth IRA contributions OR rollovers from designated Roth accounts
- Second: Converted funds
  - FIFO: Funds that were taxable
  - FIFO: Funds not taxable such as non-deductible IRA
- Third: Earnings

ASPPA AHEAD OF THE CURVE 2015 ASPPA ANNUAL CONFERENCE

Roth IRA Distribution Ordering Rules - Example

- In 2015, Roth IRA: $15,000 cumulative amount of Roth IRA contributions, excluding earnings
- In addition, there is $40,000 of conversion from a traditional IRA in 2013
- In 2015, individual (age 35) withdraws $16,000
  - The first $15,000 is from Roth IRA contributions
  - $1,000 is from the conversion amount
  - The $1,000 is subject to the 10% penalty, due to withdrawal being made before 5 years of conversion

IRS

TOP TEN DIFFERENCES BETWEEN A ROTH IRA AND A DESIGNATED ROTH ACCOUNT

	Roth IRA	Designated Roth Account
Number of Investment Choices	Many as long as not prohibited	As offered by the plan
Participation	Anyone with earned income	Participant in a 401(k), 403(b) or 457 governmental plan that allows designated Roth contributions
Contribution limits	$5,500 (for 2014*) $6,500 (if age 50 or older)	$17,500 (in 2014*) $23,000* (if age 50 or older)
Recharacterization of rolled-over amounts	Allowed	Not allowed
Required minimum distributions	Only after the original IRA owner's death	Yes
Tax on nonqualified distributions	Nonqualified distributions are distributed in this order: 1. Nontaxable contributions 2. Taxable earnings	Nonqualified distributions are pro-rated between Roth contributions (nontaxable) and earnings (taxable)
Withdrawals	Anytime. May be subject to tax if not a qualified distribution	Only when allowed by the terms of the plan. Subject to tax if not a qualified distribution
Loans	No	Yes, if plan allows
5-year holding period for qualified distributions	Begins January 1 of the year a contribution is made to any Roth IRA	Separate for each Roth account and begins on January 1 of the year contributions made to that account. If one Roth account is rolled into another, the earlier start date applies.
Beneficiary	Anyone	Anyone but, if married, spouse must consent to nonspouse beneficiary

Roth IRA Cannot Be Rolled to a 401(k) Roth

- Why?
  - Law prohibits, there is no conduit Roth IRA
- Measuring five-year period differences
  - Roth IRA v. Roth 401(k) different clocks
    - Roth IRA, from first Roth IRA
    - Roth 401(k)
- Ordering Rules for Roth IRA v. Pro-rata rules for Roth 401(k)

Roth IRA Conversion Advantages Vs. In-plan

- Conversion to Roth IRA Advantages
  - Traditional IRA to Roth IRA may be recharacterized
  - Roth IRA has no RMD during participant lifetime; beneficiaries subject to RMDs
  - No distributable event required to access
  - Roth IRA cannot be rolled back into 401(k)
  - Possibly less fees

- IRR In-plan Roth rollover conversion advantages
  - Creditor protection
  - Spousal beneficiary protection
  - Possibly less fees
  - Possible loan
  - Fiduciary provides prudent investments

ASPPA AHEAD OF THE CURVE 2015 ASPPA ANNUAL CONFERENCE

After-tax Contributions and IRRs and Roth Rollovers After Notice 2014-54

After-tax and Rollovers Notice 2014-54

- Multiple destination rollovers, e.g. rollovers to 401(k), IRA and 60-day participant rollover made at the same time when participant has pre-tax and after-tax amounts involved.

After-tax and Rollovers Notice 2014-54

- To determine the after-tax portion of distribution, treat all disbursements scheduled at the same time as a one distribution, regardless of whether distributions are paid to one or more destinations (payees).
- Contained Proposed Roth Regulation
  - To change designated Roth rollover distribution regulations so that a participant or a direct rollover are not treated as separate distributions.

ASPPA AHEAD OF THE CURVE 2015 ASPPA ANNUAL CONFERENCE

Roth Distribution Example

- Participant age 40 has $10,000 401(k) balance $9,400 of designated Roth and $600 earnings
- The participant scheduled two distributions at the same time
  - $5,000 to roll to Roth IRA, and
  - $5,000 to be paid to himself

ASPPA AHEAD OF THE CURVE 2015 ASPPA ANNUAL CONFERENCE

Roth Distribution Example

- Notice 2014-54, pretax first by direct rollover,
  - The $600 of earnings would be included in the $5,000 directly rolled to the Roth IRA
  - The $5,000 paid to the participant would be all Roth and not subject to taxation

After-tax and IRRs

- After-tax may be permitted to be an in-service distribution conversion to 401(k) Roth (IRR)
- Benefits: within limitations, permits participant to maximize the Roth 401(k) contributions
- Caveats:
  - 415 limitation cannot be exceeded.
  - After-tax amounts are part of ACP test
    - Even a SH matching plan must run an ACP test for the after-tax

ASPPA AHEAD OF THE CURVE 2015 ASPPA ANNUAL CONFERENCE

After-tax and IRRs

- If there are earnings on the after-tax being converted via an IRR, the options are to:
  - Include the earnings in the IRR and pay tax on the earnings
  - Roll the after-tax to a Roth IRA and the earnings to a traditional IRA

After-tax and IRRs Vs. Roll to Roth IRA

- Rolling to a Roth IRA has advantages:
  - Ordering rules for Roth IRA distributions
  - One Roth IRA 5-year clock for the lifetime of the taxpayer, if already started a Roth IRA, then new money picks up the existing clock
  - No RMDs on Roth IRA, while IRA owner alive
  - For a solo-k, rolling after-tax to a Roth IRA may help keep the balance below the $250,000 threshold for Form 5500-EZ
  - Recharacterization to a traditional IRA

ASPPA AHEAD OF THE CURVE 2015 ASPPA ANNUAL CONFERENCE

Handling Plan Sponsor or Participant FAQs

FAQs

- What are some areas of confusion?

- The Five Year Clocks
  - 5-year clock for recapture tax
  - Tax-free 5-year clock
  - Difference between recapture 5-year clock and tax-free 5-year clock
  - Roth IRA separate 5-year clock from designated Roth

ASPPA AHEAD OF THE CURVE 2015 ASPPA ANNUAL CONFERENCE

Plan Sponsor FAQs

- Plan Design and Conversions
  - Conversion of entire amount in one year or multiple conversions over time
  - SBJA IRR or ATRA IRR or both?
    - Need for a distributable event in order to make a in-plan Roth rollover or conversion to a Roth IRA
    - ATRA's no distributable event for an IRR

Plan Sponsor FAQs

- Plan Design and Conversions
  - Frequency of permitting an IRR conversion?
    - Annual, quarterly, other?
  - Limitation of any sources for conversion?
    - Other than deciding on ONA or ODA
    - Will Money Purchase Source be permitted?
    - After-tax conversions via in-service distribution
  - Adding an in-service provision solely for IRRs

Roth Conversions
Participant FAQs

- If conversion is for you, what type?
  - IRR, or
  - Roth IRA, or
  - Rollover to traditional IRA and convert to Roth IRA, now or later, or
  - A series of conversions
- Understanding the recapture tax
- Understanding recharacterization
- Paying tax now versus later?
  - Software programs exists
  - CPA for tax advice

Roth Conversions
Participant Considerations

- Whether conversion is right for an individual depends on a number of factors
  - Tax free earnings
  - Whether tax rates lower now then when distribution made
  - Estate tax planning, with Roth IRA there are no RMDs, leaving entire amount to beneficiaries
  - Do you need withdrawals within next 5 years?
  - Where is $ coming from to pay taxes on the conversion amount?

ASPPA AHEAD OF THE CURVE 2015 ASPPA ANNUAL CONFERENCE

Roth Conversions Participant Considerations

- Whether conversion is right for an individual depends on a number of factors
  - Do you currently maintain IRAs or Roth IRAs?
  - Time horizon until retirement will enable regeneration of funds used to pay taxes
  - Is re-characterization a possibility, if so, then consider carefully before tax filing deadline
  - Qualified Roth distributions are not included in income for purposes of determining whether Social Security benefits are taxable
  - Is after-tax to be maximized in 401(k) and then moved by IRR?
    - Beware 415 limitation
    - Beware ACP test

ASPPA AHEAD OF THE CURVE 2015 ASPPA ANNUAL CONFERENCE

Questions & Comments

- Thank you for attending!!
- E-mail any questions or comments to me at: WCGrossman@dstrs.com

ASPPA AHEAD OF THE CURVE 2015 ASPPA ANNUAL CONFERENCE

For Reference
Roth Form 1099-R Reporting

9898 ☐ VOID ☐ CORRECTED

PAYER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code	1 Gross distribution $ 2a Taxable amount $	OMB No. 1545-0119 2015 Form 1099-R	Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
	2b Taxable amount not determined ☐	Total distribution ☐	Copy A For Internal Revenue Service Center
PAYER'S federal identification number / RECIPIENT'S identification number	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 2015 General Instructions for Certain Information Returns.
Street address (including apt. no.)	7 Distribution code(s) / IRA/ SEP/ SIMPLE ☐	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.	12 State tax withheld $ $	13 State/Payer's state no.	14 State distribution $ $
Account number (see instructions)	15 Local tax withheld $ $	16 Name of locality	17 Local distribution $ $

Form 1099-R Cat. No. 14436Q www.irs.gov/form1099r 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

Designated Roth & Form 1099-R

- A separate Form 1099-R must be issued for designated Roth account distributions.
- Code B is for all Roth distributions. (Qualified distributions and distributions which have not yet become qualified).
- Box 11 is for reporting the first year of the designated Roth account
- Box 10 is for reporting the distribution of an In-plan Roth Rollover (IRR) that has been distributed before 5 years after the conversion

ASPPA AHEAD OF THE CURVE 2015 ASPPA ANNUAL CONFERENCE 49

Designated ROTH Distribution Severance and Partial Distribution

- Participant, age 40, has $10,000 balance
  - $9,400 of designated Roth contributions
  - $600 of earnings
- Participant withdraws $5,000
  - $4,700 is Roth; $300 earnings
- Form 1099-R
  - Box 1 $5,000
  - Box 2a $300
  - Box 4 $60 (20% mandatory withholding)
  - Box 5 $4,700 (Roth basis)
  - Box 7 Code B
  - Box 11 First year of 5-year clock.

ASPPA AHEAD OF THE CURVE 2015 ASPPA ANNUAL CONFERENCE 50

Designated ROTH Distribution Severance & Direct Rollover to Roth IRA

- 8 Months Later participant has $5,000 balance remaining
  - $4,700 of designated Roth contributions
  - $300 of earnings
- Participant directly rolls $5,000 to Roth IRA
  - $4,700 is Roth; $300 earnings
- Form 1099-R
  - Box 1 $5,000
  - Box 2a $0
  - Box 4 $0
  - Box 5 $4,700 (Roth basis)
  - Box 7 Code H
  - Box 11 First year of 5-year clock.

Severance & Direct Rollover to Roth IRA

- If this participant scheduled both distributions at the same time
- Starting with $10,000 Roth of which $600 was earnings and requested $5,000 to roll to Roth IRA and $5,000 to be paid to himself
- Notice 2014-54, pretax first by direct rollover, So the $600 earnings would go to the Roth IRA;
- Form 1099-R for direct rollover
  - Box 1 $5,000
  - Box 2a $0
  - Box 4 $0
  - Box 5 $4,400 (Roth basis)
  - Box 7 Code H
  - Box 11 First year of 5-year clock.
- Form 1099-R for distribution to Participant
  - Box 1 $5,000; Box 2a $0; Box 5 $5,000; Box 7 Code B

QP Non-ROTH Distribution in 2015; Sever & Direct Roll to Roth IRA

- Participant has $120,000 balance
  - $108,000 of ER, EE non-Roth contributions. Plus earnings
  - $12,000 of after-tax
- Participant directly rolls $120,000 to Roth IRA
- Form 1099-R
  - Box 1 $120,000
  - Box 2a $108,000
  - Box 4 $0
  - Box 5 $12,000 (after-tax basis)
  - Box 7 Code G

QP Non-ROTH DISTRIBUTION in 2015 Direct Rollover to Traditional IRA

- JP Participant has $200,000 balance
  - $190,000 of ER, EE non-Roth deferrals + earnings
  - $10,000 of after-tax
- JP Participant directly rolls $200,000 to Traditional IRA
- Form 1099-R
  - Box 1 $200,000
  - Box 2a $0
  - Box 4 $0
  - Box 5 $10,000 (after-tax basis)
  - Box 7 Code G
- Form 5498, Traditional IRA
  - Box 2: $190,000
  - No taxation on entire amount

ASPPA | AHEAD OF THE CURVE | 2015 ASPPA ANNUAL CONFERENCE

QP Non-ROTH Distribution in 2015 Direct Rollover to Traditional IRA

- JP Participant:$200,000 balance; arranges total distribution
  - $190,000 of ER, EE non-Roth deferrals + earnings
  - $10,000 of after-tax
- JP Participant directly rolls $190,000 to Traditional IRA
- Form 1099-R
  - Box 1 $190,000
  - Box 2a $0
  - Box 4 $0
  - Box 7 Code G
- Form 5498, Traditional IRA
  - Box 2: $190,000, No taxation on entire amount
- Form 1099-R
  - Box 1 $10,000
  - Box 2a $0
  - Box 5 $10,000
- Per Notice 2014-54

QP In-plan ROTH Rollover in 2015 aka In-plan Roth Conversion

- Participant M: $75,000 balance; over age 59½; in-service distribution; all pre-tax sources: $75,000 of ER matching and EE pre-tax elective deferrals. Plus earnings
- Participant M makes an in-plan Roth Rollover to a designated Roth account of all $75,000
- Form 1099-R
  - Box 1 $75,000
  - Box 2a $75,000
  - Box 4 $0
  - Box 5 $0
  - Box 7 Code G
- 2015 Form 8606, Participant Files with Form 1040
  - Part III: Report in-plan Roth Rollover

ASPPA AHEAD OF THE CURVE 2015 ASPPA ANNUAL CONFERENCE

QP In-plan ROTH Rollover in 2015 aka In-plan Roth Conversion

- Participant M: $150,000 balance; age 40; in-service distribution for purpose of in-plan Roth rollover under ATRA; pre-tax sources: $145,000 of ER matching, safe harbor QNEC, EE pre-tax elective deferrals; $5,000 after-tax and earnings
- Participant M makes an in-plan Roth Rollover to a designated Roth account of all $150,000
- Form 1099-R
  - Box 1 $150,000
  - Box 2a $145,000
  - Box 4 $0
  - Box 5 $5,000
  - Box 7 Code G
- 2014 Form 8606, Participant Files with Form 1040
  - Part III: Report in-plan Roth Rollover

QP Designated ROTH Direct Rollover to Roth IRA 2015

- JP Participant has $50,000 of 401(k) Roth balance
  - $46,000 Roth contributions.
  - $4,000 earnings
- JP Participant directly rolls $50,000 to ROTH IRA
- Form 1099-R
  - Box 1 $50,000
  - Box 2a $0
  - Box 4 $0
  - Box 5 $46,000 (after-tax basis)
  - Box 7 Code H
  - 1st year of Roth 2008
- Form 5498, Roth IRA
  - Box 2: $50,000
  - No taxation on $4,000