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flash Alert

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United States – Final Regs Issued Concerning Disbursements from Roth Accounts

by KPMG LLP's Washington National Tax practice, Washington, D.C. (KPMG LLP in the United States is a KPMG International member firm)

On May 17, 2016, the United States Treasury Department and the Internal Revenue Service (IRS) issued final regulations (T.D. 9769)[1] that modify rules on the tax treatment of disbursements from designated Roth accounts to multiple destinations.

Why This Matters

These final regulations eliminate the "separate distribution rule," which required a plan participant to treat each disbursement from a designated Roth account that is directly rolled over to an eligible retirement plan as a separate distribution from any amount paid directly to the participant. Whereas the "separate distribution rule" allocated pre-tax and after-tax amounts pro rata to each separate destination, the final regulations allocate pre-tax amounts first to the direct rollover. This change should enable retirement plan participants to more easily transfer after-tax savings from their retirement plans to Roth individual accounts.

T.D. 9769 in Brief

The final regulations are substantively similar to rules provided in proposed regulations and related IRS Notice 2014-55[2] in that they eliminate the "separate distribution rule." For all distributions made on or after January 1, 2016,[3] taxpayers may direct after-tax and pre-tax amounts that are simultaneously disbursed to multiple destinations, applying the same allocation rules to distributions from designated Roth accounts that apply to distributions from other types of accounts.

The final regulations also provide a transition rule for distributions made prior to January 1, 2016, which preserves the separate distribution rule for any distributions made on or after September 18, 2014, unless a taxpayer elects to follow the allocation rules applicable to distributions made on or after January 1, 2016.

The final regulations became effective upon publication in the Federal Register on May 18, 2016.[4]

Footnotes:

1 See T.D. 9769 at: https://s3.amazonaws.com/public-inspection.federalregister.gov/2016-11647.pdf .

2 See Notice 2014-55 at: https://www.irs.gov/irb/2014-41_IRB/ar12.html .

3 This is a one-year delay from the proposed rule in REG-105739-11.

4 See the final regulations in the Federal Register at: https://www.gpo.gov/fdsys/pkg/FR-2016-05-18/pdf/2016-11647.pdf .

For a related story in KPMG's *TaxNewsFlash-United States* "Final regulations: Disbursements from designated Roth accounts to multiple destinations," (May 17, 2016), click, here.

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The Value of Planning for Short-Term International Assignments

When you send an employee on a short-term international assignment, do you think "This should be a walk in the park, compared to the employees I send on long-term assignments. No accompanying family members, no time-consuming and expensive visas and work permits, no complicated compensation package, no tricky tax matters…"? Well, there's a lot more to STAs than that.

This new GMS video highlights the need – right from the start – to formulate a pre-assignment process that proactively manages potential corporate and individual risk, gets all the appropriate stakeholders communicating with one another and working collaboratively, and focuses on proper planning and informed decision-making.

Please watch:

The Value of Planning for Short-Term International Assignments – (app. 7 minutes 18 seconds)

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