

No Surprises in IRS Final Roth After-Tax Allocation Regulation

Final IRS regulations affirm its previous notice and proposed regulations on the allocation of taxable and non-taxable amounts among distributions from designated Roth accounts to multiple destinations. IRS had provided revised language for the “Special Tax Notice” to reflect this change in 2014.

Background

A written explanation known as a Code Section 402(f) notice, or “Special Tax Notice,” must be provided to recipients of eligible rollover distributions from qualified plans, 403(b) plans, and governmental 457(b) plans. This notice describes options for rolling over the distributed amounts to defer taxation and the implications of taking a taxable distribution.

To rectify a conflict between language in the Code versus designated Roth account regulations and the 2009 version of Special Tax Notice, the IRS confirmed in Notice 2014-54 that for purposes of determining the proration of a distribution that consists of after-tax (including Roth) and pretax amounts, multiple distributions made at the same time (or within a reasonable timeframe due to administrative delays), whether or not to multiple destinations, are treated as a single distribution. Paired with the notice was a proposed regulatory amendment. See our [October 7, 2014](#) *For Your Information* for details on the notice and proposed regulation.



The guidance was quickly followed by a revised safe harbor Special Tax Notice, which was reported in our [November 26, 2014](#) *FYI Alert*.

Final Regulations in Place

Aside from moving the effective date of the final rule to January 1, 2016 from January 1, 2015 and modifying the transition period accordingly, [the final regulation](#) simply removes the errant rule in the existing Roth regulation as proposed.

In Closing

If for some reason you have not implemented the 2014 guidance, now would be a good time to revisit and repair your notices.

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