



Roth IRA Distribution Ordering Rules

The IRS has prescribed a distribution hierarchy for Roth IRA assets. Contributions are always taken first; conversions (if any) are second in order by year of contribution, with converted pre-tax assets taken first and converted after-tax assets taken second. Earnings are considered distributed last. Contributions are always distributed tax and penalty free. Converted pre-tax assets are distributed tax and penalty free as long as they have been held in the account for five years. If not, a 10 percent would apply to the distribution. Converted after-tax assets are always distributed tax and penalty free. Earnings are distributed tax and penalty free if the Roth IRA has existed for five years and the distribution is done on or after age 59½, or following death, disability or first-time home purchase. Otherwise the earnings would be taxable and subject to penalty unless a penalty exception applies. The following table summarizes the Roth IRA distribution ordering rules.

Ordering Rules	Qualified Distribution	Nonqualified Distribution	
		Client Has a Penalty Exception	Client Does Not Have a Penalty Exception
1 Contributory Dollars	No tax; No penalty	No tax; No penalty	No tax; No penalty
2 Taxable Conversion Dollars (Client paid taxes at the time of the conversion)	No tax; No penalty	No tax; No penalty	No tax; Subject to penalty if within 5 years of the conversion*
3 Nontaxable Conversion Dollars	No tax; No penalty	No tax; No penalty	No tax; No penalty
4 Earnings	No tax; No penalty	Subject to tax; No penalty	Subject to tax; Subject to penalty

*Roth IRA conversions have their own "five-year clocks" based on the year of conversion. If a Roth IRA owner takes a distribution of conversion dollars within five years of the conversion, the Roth IRA owner could be subject to a penalty.