Traditional IRAs: Sometimes They Are Together

Quick-Take: While we tend to think of traditional IRA and Roth IRAs is being entirely different from one another, sometimes they are treated the same in the Tax Code, or they can be aggregated to comply with other rules.

Background: It is common for an individual to own both a traditional IRA and a Roth IRA. While their contribution and distribution rules are in certain instances significantly different, there are also occasions when these two types of IRA are either consolidated or subject to the same rules under the Tax Code. A few examples of those *consolidated/same rule* situations follow.

Contributions: The Tax Code places a limit on the amount that can annually be contributed to an IRA. In 2026 that IRA maximum contribution amount is $7,500 (or $8,600 if the owner is over the age 50.) The owner cannot contribute the full dollar limit to each of her traditional IRA and her Roth IRA. The annual maximum dollar amount is the maximum contribution to *all* IRAs by the owner. Both types of IRA are subject to the April 15 of the following year contribution deadline. So long as the owner has earned income, there is no age limit when contributions can be made to either, or both, types of IRA, or spread between the two types.

60-Day Rollovers: The Tax Code allows *one* IRA rollover every 365 days (from one IRA to the owner and then onto another IRA within 60 days) which is known as the 60-day rollover rule. This limitation applies to either a traditional IRA-to-traditional IRA rollover, or to a Roth IRA-to-Roth IRA 60-day rollover. The owner of these IRAs cannot concurrently use this transfer strategy for both a traditional 60-day rollover and to a Roth 60-day rollover in the same 365 days. It is either/or one rollover every 365 days for *all* IRAs (traditional and Roth.) As noted in past missives, this one-time-per-365-day rule can (and should) be completely avoided by using a direct custodian-to-custodian transfer for one or both types of IRAs, which can occur as many times as needed in the same 365-day period so long as it is a direct custodian-to-custodian transfer.

Bankruptcy: IRAs are exempt from creditor claims in bankruptcy, up to a specific dollar amount that is periodically adjusted by cost-of-living. In 2026

that protected IRA dollar amount is $1,711,975. However, that dollar limitation is *not* for each IRA; rather, the protected amount is applied to *all,* i.e., aggregated IRAs of the bankrupt, whether they are traditional IRAs or Roth IRAs.

Statutory Creditor Exemption: Recall, too, that a couple of federal judges have interpreted Michigan's exempt property statute as excluding only *one* IRA from a judgment creditor's claims (but with no dollar limit, unlike the federal bankruptcy rule.) Accordingly, if the judgment debtor owns two IRAs, one a traditional IRA and the other a Roth IRA, a tough choice may have to be made which IRA to claim as exempt (the traditional IRA, with a larger balance but with RMD obligations and inherent income tax burden, or a smaller balance Roth IRA which has no RMD obligation and which produces tax-free income for the Roth owner's lifetime.) If multiple traditional IRAs are owned by the judgment debtor, they can be consolidated into a single traditional IRA and thus achieve the statute's creditor protection. However, a Roth IRA cannot be consolidated with the debtor's traditional IRA to cloak both from the creditor's judgement under the statute.

Currently the Michigan Bar Association's Probate and Estate Planning Section is working on an update to the Michigan exempt property statute to specifically exclude a Roth IRA *as well as* a traditional IRA from judgment creditor claims. Until the Michigan statute is amended, an individual contemplating a serial Roth conversion of his/her traditional IRA over several years needs to be made aware of this restrictive judicial interpretation of the Michigan exempt property statute.

Early Distribution Penalty Age: Both a traditional IRA and a Roth IRA face the 10% excise tax for distributions prior to age 59 ½ (unless a specific statutory exception applies, e.g., disability or first home purchase.) That threshold age is the same for distributions from either a traditional IRA or for the earnings from a Roth IRA (in addition to the income tax on the 'early' distribution (earnings from the Roth IRA.))

Roth IRA Consolidation: However, with the Roth IRA there is a beneficial consolidation among all Roth IRAs. For the distribution from a Roth IRA to be free from the early distribution penalty, the Roth IRA owner must be both (i) 59

½, and (ii) the Roth IRA must have been in existence at least five years, which ever of the two conditions is *later*. If the Roth IRA owner has more than one Roth IRA, the at least-five-year duration starts from January 1 of the year whichever Roth IRA received its first contribution, no matter how little the amount. But all the owner's Roth IRAs are consolidated, so a tax-free distribution of earnings could be made from the later-opened Roth IRA, even if its has not been opened for the full five years, just so long as the 'other' Roth IRA has a shelf-life longer than five years.

Traditional IRA Consolidation: Some traditional IRAs hold after-tax contributions. Those after-tax contributions create a problem when there is a Roth conversion of a traditional IRA, since it is impossible to segregate the after-tax contributions from the pre-tax contributions to the same IRA, hence the so-called *cream-in-the-coffee,* or *pro rata* rule, that requires that each distribution (or rollover) from the traditional IRA to the Roth IRA carries out a portion of the after-tax contribution held in *any* traditional IRA that is owned. As such, the *pro rata* rule complicates an otherwise 'normal' Roth IRA conversion. Added to that complication is that all the traditional IRAs owned by the owner, which includes SEP and SIMPLE IRAs are also aggregated when calculating the *pro rata* amount. In other words, the IRA owner cannot only contribute after-tax dollars to one traditional IRA, and pre-tax dollars to another traditional IRA in order to avoid the *cream-in-the-coffee* rule. This aggregation of all traditional, SEP and SIMPLE IRAs, along with the *pro rata* rule can frustrate an effort to implement a 'back-door' Roth conversion of one or more traditional IRAs.

Excess Contributions: While the concept of a *recharacterization* of a Roth IRA back to a traditional IRA, or vice versa, ended with the 2017 Tax Act, a possible recharacterization is still exists for an excess contribution to a traditional IRA or an excess contribution to a Roth IRA, i.e., allowing the excess amount to be removed from the IRA. Both types of excess contributions are subject to the 6% excess contribution excise tax. The deadline for the *recharacterization/removal* is October 15 of the year that follows when the excess contribution was made to either the traditional or to the Roth IRA. This recharacterization opportunity also applies to any gain or loss on the excess contribution funds held in either IRA, which the IRS calls

net income attributable; the IRS applies the same formula to calculate the recharacterization earnings amount that must be removed from the IRA.

Conclusion: There are occasions when all IRAs are treated the same, and obvious times when they are not. There are times when traditional IRAs and Roth IRAs are aggregated when apply the Tax Code rules and other times when they are treated differently. The danger is in making assumptions that Roth and traditional IRAs are always treated differently, or that one set of rules does not apply to the other type of IRA. Trying to remember all of these rules (different or aggregation) can lead to costly mistakes. Can we hope that the new Congress will spend some of its valuable time simplifying the retirement account contribution and distribution rules with a goal towards establishing a level of consistency, regardless of the nature of the account?

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