THE Mangold Group
Certified Public Accountants, PC

1120 S. Capital of Texas Highway | Building 2, Suite 120 | Austin, TX 78746 | p 512.327.0909 | f 512.327.0904 | www.mangoldcpa.com

Leaving Your Job? Weigh the Options of a Rollover

If you are quitting your job for another position or retiring completely, you probably have a zillion things on your mind. However, do not forget about the assets in your 401(k) plan or other qualified plan at work. There are several options to consider.

* Leave the money where it is. Remember that you will not be connected any longer with the employer providing the plan.

* Cash in the funds at a hefty tax price. Generally, the payout will be taxed at ordinary income rates, now reaching as high as 39.6%. Plus, you will be assessed a 10% tax penalty if you are under age 59½, unless a special exception applies.

* Roll over the funds to a traditional IRA (or another qualified plan if one is available at a new job). The rollover is exempt from income tax if it is completed within 60 days of the distribution.

The rollover-to-an-IRA option is often preferable since it preserves your nest egg without any tax erosion while offering a wide array of investment choices. Yet this tax-saving technique is not without its perils.

Notably, if you do not meet the 60-day deadline, the payout is treated as a taxable distribution. Also, if you receive the funds, the plan administrator will withhold tax at a 20% rate, even if you intend to roll over within 60 days. Thus, you cannot recoup this amount until you file your tax return for the year of the transfer. To avoid withholding, arrange a "trustee-to-trustee transfer" to the IRA in which your hands never touch the money. Finally, if you roll over funds to a Roth IRA instead of a traditional IRA, you must pay tax like any other Roth conversion.

Review your options and choose what is right for you. Feel free to contact us if you would like help investigating the alternatives.

We offer informative emails to help businesses and individuals. If you are interested in more financial advice and tax tips, follow The Mangold Group on Linked In, Facebook, or Twitter.