## Can a Profit-Sharing Plan Be Transferred to an IRA?

A profit-sharing plan such as a 401(k) allows employees to shield part of their compensation from income taxes. The plan normally features contributions from your employer, although some types of defined benefit plans may lack this perk. A profit-sharing plan is qualified if it meets Internal Revenue Service rules. The plan may be set up as a Roth account, in which contributions are made with after-tax dollars.

### Qualified Plans

Employees can move their money from a qualified profit-sharing plan to an individual retirement account. The plan may have a "vesting" schedule, which delays your ownership of employer contributions until you've been with the company a certain period. You don't have to move the entire balance at one time, and the IRS doesn't require a waiting period between transfers.

### Rollovers

An employee can roll over assets from a profit-sharing plan to an IRA tax-free by withdrawing money and depositing it in the IRA within 60 days. If you miss the deadline, the IRS will treat the money as a distribution and tax it as income. You may also be liable for a 10 percent early withdrawal penalty if you are younger than 59 1/2. Your employer must withhold 20 percent of the rollover amount to ensure that some taxes are paid if you miss the rollover deadline. You can reclaim the withholding when you file your next tax return. If you fail to reach into your own pocket and deposit the 20 percent as part of the rollover, the IRS will tax that amount.

### Transfers

A trustee-to-trustee transfer is a simpler way to move money from a profit-sharing plan to an IRA. No deadlines or withholding requirements are involved. You must tell your old and new trustees the amount to transfer, the two account numbers and any other information they may require. You can't transfer life insurance policies. You also can't transfer or roll over money that results from a hardship distribution, a required minimum distribution, a series of substantially equal periodic distributions, excess contributions or employer stock dividends.

### Roth Accounts

If your workplace plan is a designated Roth account, you have already paid the income taxes on your contributions. You can transfer or rollover your account to a Roth IRA tax-free. You can't transfer a Roth profit-sharing plan to a traditional IRA. If you convert a traditional profit-sharing plan to a Roth IRA, you must include the converted amount in your taxable income for the year, but will not have to pay an early withdrawal penalty. Because a Roth conversion generates taxable income, you may want to make such transfers in yearly installments to avoid climbing into a higher tax bracket.