



A traditional IRA can be converted to a Roth IRA, and the five-year holding period is a critical factor in determining the tax treatment of subsequent distributions from the Roth IRA. Here is a comprehensive explanation of the rules, requirements, and implications, based on the Internal Revenue Code, Treasury Regulations, and IRS guidance:

1. Conversion from Traditional IRA to Roth IRA

Eligibility and Process:

- Any individual can convert a traditional IRA to a Roth IRA, regardless of income level, by either a rollover, trustee-to-trustee transfer, or a transfer between IRAs of the same trustee [2].
- The amount converted is treated as a distribution from the traditional IRA and a qualified rollover contribution to the Roth IRA [2].
- The taxable portion of the conversion (i.e., amounts not previously taxed) is included in gross income for the year of the conversion [2].

2. Five-Year Holding Periods

There are two distinct five-year rules that apply to Roth IRAs:

A. Five-Year Rule for Qualified Distributions

- **Definition:** For a distribution from a Roth IRA to be a "qualified distribution" (and thus entirely tax-free), it must be made after the end of the five-taxable-year period beginning with the first taxable year for which the individual made a contribution to any Roth IRA, and it must also meet one of the following conditions:
 - Made on or after the date the individual attains age 59½,
 - Made to a beneficiary (or the estate) after the individual's death,
 - Attributable to the individual's disability,
 - Used for a qualified first-time home purchase (up to \$10,000 lifetime limit) [3].

- **Start of the Five-Year Period:** The five-year period begins on January 1 of the year for which the first regular contribution (or conversion) is made to any Roth IRA of the individual, not necessarily the Roth IRA from which the distribution is made [3].
- **Effect:** Once the five-year period is satisfied, and one of the above conditions is met, all distributions (including earnings) are tax-free [3].

B. Five-Year Rule for Conversions (Penalty Rule)

- **Purpose:** This rule determines whether the 10% early distribution penalty applies to distributions of converted amounts (principal) from a Roth IRA.
- **Rule:** If a taxpayer converts amounts from a traditional IRA to a Roth IRA and then takes a distribution of those converted amounts within five years of the conversion, the distribution may be subject to the 10% early withdrawal penalty, unless an exception applies (e.g., age 59½, disability, death, first-time home purchase, etc.) [3].
- **Separate Five-Year Periods:** Each conversion has its own five-year period for penalty purposes, starting January 1 of the year in which the conversion was made [3].

3. Ordering Rules for Distributions

When distributions are made from a Roth IRA, they are deemed to come out in the following order:

1. Regular contributions (always tax- and penalty-free),
2. Conversion contributions (on a first-in, first-out basis; taxable only if withdrawn within five years and subject to penalty unless an exception applies),
3. Earnings (taxable and potentially subject to penalty if not a qualified distribution) [3].

4. Taxation and Penalties

- **Qualified Distributions:** Not included in gross income; no penalty [3].
- **Nonqualified Distributions:** Taxable to the extent of earnings, and the 10% penalty may apply to the taxable portion unless an exception applies [3].
- **Converted Amounts:** If withdrawn within five years of the conversion, the 10% penalty applies to the portion that was taxable at conversion, unless an exception applies [3].

5. Examples

- **Example 1:** If you convert \$50,000 from a traditional IRA to a Roth IRA in 2025, the five-year period for qualified distributions starts on January 1, 2025. If you are over 59½ and take a distribution in 2030, it is a qualified distribution (assuming no prior Roth IRAs), and both principal and earnings are tax-free.
- **Example 2:** If you convert \$20,000 in 2025 and withdraw it in 2027 (before age 59½), the amount is not subject to income tax (since it was taxed at conversion), but the 10% penalty applies unless an exception is met.

6. Special Considerations

- The five-year period for qualified distributions is determined once per taxpayer, not per Roth IRA or per conversion [\[3\]](#).
- The five-year period for the penalty on converted amounts is determined separately for each conversion [\[3\]](#).

7. Summary Table

Rule Type	Applies To	Five-Year Period Begins	Effect
Qualified Distribution	All Roth IRAs	1/1 of first contribution/conversion year	Distributions tax- and penalty-free if also age 59½, death, disability, or first-time home purchase
Conversion Penalty Rule	Each conversion amount	1/1 of conversion year	10% penalty on withdrawals of converted principal within five years unless exception applies

8. References

- IRC §408A(d), (e)
- Treasury Reg. §1.408A-6 Q&A 1–10 [\[3\]](#)

- IRS Publication 590-B (2024) [4]

In summary: When converting a traditional IRA to a Roth IRA, the five-year holding period is crucial for determining whether distributions are tax-free and whether the 10% early withdrawal penalty applies. The five-year period for qualified distributions is based on the first Roth IRA contribution or conversion, while the five-year period for penalty purposes is determined separately for each conversion. Distributions are ordered so that contributions come out first, then conversions, then earnings [3].

Cited sources

- [1] STATUTE [Sec. 408A Roth IRAs](#)
- [2] REGULATION [Sec. 1.408A-4 Converting amounts to Roth IRAs.](#)
- [3] REGULATION [Sec. 1.408A-6 Distributions.](#)
- [4] ADMIN [Publication 590-B \(2024\)](#)

Additional relevant sources

- ADMIN [Publication 17 \(2024\)](#)
- COMMENTARY [Practice Articles: The Role of Roth Conversions Early in Retirement](#)
- COMMENTARY [Practice Articles: Transferring a Section 529 Plan Balance to a Roth IRA](#)