200126040

Internal Revenue Service

Department of the Treasury

Washington, DC 20224

UIC: 9100.00-00
408A.00-00

Contact Person:

Telephone Number:

In Reference to:

TEP:RA:T3 ID: 50-03192

Date:

APR - 4 2001

LEGEND:

Taxpayer A:

Taxpayer B:

IRA U:

IRA V:

Roth IRA W:

Roth IRA X:

Roth IRA Y:

Sum C:

Sum D:

Sum E:

Company M:

Company N:

Dear :

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This is in response to the , letter, submitted by your authorized representative on your behalf, as supplemented by correspondence dated , in which you request relief under section 301.9100-3 of the Procedure and Administration Regulations.

Taxpayer A is married to Taxpayer B. Taxpayer A and B file joint Federal Income Tax Returns.

During December, 1998, Taxpayers A and B converted several traditional individual retirement arrangements (IRAs) to Roth IRAs. Taxpayer A converted IRA V in the amount of Sum E to Roth IRA Y. Taxpayer B converted IRA U in the amount of Sum C to Roth IRA W. Additionally, Taxpayer B transferred Sum D from a traditional IRA to Roth IRA X.

IRA U and Roth IRA W either were or are maintained with Company M. IRA V and Roth IRAs X and Y either are or were maintained with Company N.

The conversion of the traditional IRAs to the Roth IRAs by Taxpayers A and B, summarized above, were accomplished at the suggestion of their broker. Your authorized representative asserts, on your behalf, that Taxpayers A and B either were misadvised by the agent of their broker or misunderstood his instructions so that they believed that they could convert their traditional IRAs to Roth IRAs as long as their adjusted gross income for the year of conversion did not exceed $150,000. Additionally, your authorized representative asserts that Taxpayers A and B either were misadvised by the agent of their broker or misunderstood his instructions so that they believed that they had until April 15, 1999 to convert their traditional IRAs to Roth IRAs. Finally, they believed that they had until April 15, 2000 to reconvert their Roth IRAs to traditional IRAs if necessary.

Taxpayers A and B became aware of their inability to convert their traditional IRAs to Roth IRAs during calendar year 2000 when their 1998 Federal Tax Return was being prepared. Taxpayers A and B had previously filed for an extension of the filing date with respect to their 1998 Federal Income Tax Return and, as asserted by your authorized representative, paid the amount that would have been due on said 1998 return if they could have converted their traditional IRAs to Roth IRAs.

As of the date of this ruling request, Taxpayers A and B have not filed their 1998 Federal Income Tax Return. Additionally, as of the date of this ruling request, Taxpayers A and B have not reconverted their Roth IRAs to traditional IRAs.

Taxpayers A's and B's Federal adjusted gross income for 1998 (calendar year 1998) exceeded $100,000.

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This request for relief under section 301.9100-3 of the Procedure and Administration Regulations was made pursuant to the advice of Taxpayer A's and Taxpayer B's accountant and was filed shortly after Taxpayers A and B discovered that they were ineligible to convert their traditional IRAs to Roth IRAs because their adjusted gross income exceeded permissible limits.

Based on the above, you, through your authorized representative, request the following letter ruling:

That, pursuant to section 301.9100-3 of the regulations, Taxpayers A and B are granted a period not to exceed six months from the date of this ruling letter to recharacterize their Roth IRAs to traditional IRAs.

With respect to your request for relief under section 301.9100-3 of the regulations, section 408A(d)(6) of the Internal Revenue Code and section 1.408A-5 of the Income Tax Regulations provide that, except as otherwise provided by the Secretary, a taxpayer may elect to recharacterize an IRA contribution made to one type of IRA as having been made to another type of IRA by making a trustee-to-trustee transfer of the IRA contribution, plus earnings, to the other type of IRA. In a recharacterization, the IRA contribution is treated as having been made to the transferee IRA and not the transferor IRA. Under section 408A(d)(6) and section 1.408A-5, this recharacterization election generally must occur on or before the date prescribed by law, including extensions, for filing the taxpayer's federal income tax returns for the year of contributions.

Section 1.408A-5, Question and Answer-6, describes how a taxpayer makes the election to recharacterize the IRA contribution. To recharacterize an amount that has been converted from a traditional IRA to a Roth IRA: (1) the taxpayer must notify the Roth IRA trustee of the taxpayer's intent to recharacterize the amount, (2) the taxpayer must provide the trustee (and the transferee trustee, if different from the transferor trustee) with specified information that is sufficient to effect the recharacterization, and (3) the trustee must make the transfer.

Section 1.408A-4, Q&A-2, provides, in summary, that an individual with modified adjusted gross income in excess of $100,000 for a taxable year is not permitted to convert an amount to a Roth IRA during that taxable year. Section 1.408A-4, Q&A-2, further provides, in summary, that an individual and his spouse must file a joint Federal Tax Return to convert a traditional IRA to a Roth IRA, and that the modified adjusted gross income subject to the $100,000 limit for a taxable year is the modified AGI derived from the joint return using the couple's combined income.

Sections 301.9100-1, 301.9100-2, and 301.9100-3 of the Procedure and Administration Regulations, in general, provide guidance concerning requests for relief

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submitted to the Service on or after December 31, 1997. Section 301.9100-1(c) of the regulations provides that the Commissioner of the Internal Revenue Service, in his discretion, may grant a reasonable extension of the time fixed by a regulation, a revenue ruling, a revenue procedure, a notice, or an announcement published in the Internal Revenue Bulletin for the making of an election or application for relief in respect of tax under, among others, Subtitle A of the Code.

Section 301.9100-2 lists certain elections for which automatic extensions of time to file are granted. Section 301.9100-3 of the regulations generally provides guidance with respect to the granting of relief with respect to those elections not referenced in section 301.9100-2. The relief requested in this case is not referenced in section 301.9100-2.

Section 301.9100-3 of the regulations provides that applications for relief that fall within section 301.9100-3 will be granted when the taxpayer provides sufficient evidence (including affidavits described in section 301.9100-3(e)(2)) to establish that (1) the taxpayer acted reasonably and in good faith, and (2) granting relief would not prejudice the interests of the government.

Section 301.9100-3(b)(1) of the temporary regulations provides that a taxpayer will be deemed to have acted reasonably and in good faith (i) if its request for section 301.9100-1 relief is filed before the failure to make a timely election is discovered by the Service; (ii) if the taxpayer inadvertently failed to make the election because of intervening events beyond the taxpayer's control; (iii) if the taxpayer failed to make the election because, after exercising reasonable diligence, the taxpayer was unaware of the necessity for the election; (iv) the taxpayer reasonably relied upon the written advice of the Service; or (v) the taxpayer reasonably relied on a qualified tax professional, including a tax professional employed by the taxpayer, and the tax professional failed to make, or advise the taxpayer to make, the election.

Section 301.9100-3(c)(1)(ii) of the temporary regulations provides that ordinarily the interests of the government will be treated as prejudiced and that ordinarily the Service will not grant relief when tax years that would have been affected by the election had it been timely made are closed by the statute of limitations before the taxpayer's receipt of a ruling granting relief under this section.

Announcement 99-57, 1994-24 I.R.B. 50 (June 14, 1999) provided that a taxpayer who timely filed his/her 1998 Federal Income Tax Return would have until October 15, 1999 to recharacterize an amount that had been converted from a traditional IRA to a Roth IRA.

Announcement 99-104, 1999-44 I.R.B. 555 (November 1, 1999), provided that a taxpayer who timely filed his/her 1998 Federal Income Tax Return would have until

December 31, 1999 to recharacterize an amount that had been converted from a traditional IRA to a Roth IRA.

Taxpayers A and B did not timely file their 1998 Federal Income Tax Return, and, as shown above, have not filed said Tax Return as of the date of this ruling request. As a result, they are ineligible for relief under either Announcement 99-57 or Announcement 99-104. Therefore, it is necessary to determine if they are eligible for relief under the provisions of section 301.9100-3 of the regulations.

In this case, Taxpayers A and B were ineligible to convert their traditional IRAs to Roth IRAs since their adjusted gross income exceeded $100,000. However, until they discovered otherwise while preparing their Federal Income Tax Return for 1998, Taxpayers A and B erroneously believed that they were eligible to so convert based on information given them either by their broker or an agent of the broker. Taxpayers A and B filed this request for section 301.9100 relief shortly after discovering their 1998 IRA conversions were improper and shortly after receiving advice from an attorney to do so. 1998 is not a "closed" tax year.

With respect to your request for relief, we believe that, based on the information submitted and the representations contained herein, the requirements of sections 301.9100-1 and 301.9100-3 of the regulations have been met, and that you have acted reasonably and in good faith with respect to making the election to recharacterize your Roth IRA as traditional IRAs. Specifically, the Service has concluded that you have met the requirements of clauses (i) and (v) of section 301.9100-3(b)(1) of the regulations. Therefore, you are granted an extension of six months from the date of the issuance of this letter ruling to so recharacterize.

No opinion is expressed as to the tax treatment of the transaction described herein under the provisions of any other section of either the Code or regulations which may be applicable thereto.

This letter is directed only to the taxpayers who requested it. Section 6100(j)(3) of the Code provides that it may not be used or cited as precedent.

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Pursuant to a power of attorney on file with this office, a copy of this ruling letter is being sent to your authorized representative.

Sincerely yours,

Frances V. Sloan

Frances V. Sloan
Manager, Employee Plans
Technical Group 3
Tax Exempt and Government
Entities Division

Enclosures:

Deleted copy of ruling letter
Notice of Intention to Disclose