DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

200209056

DEC - 2 2001

UIL No.: 9100.00-00

T:EP:RA:T1

Legend :

Taxpayer A.....

Taxpayer B.....

IRA X.....

IRA Y.....

Company M.....

Sum N.....

Dear :

This is in response to a letter dated August 22, 2001, submitted by your authorized representative, in which you request relief under section 301.9100-3 of the Procedure and Administration Regulations (the "regulations"). The following facts and representations were submitted in connection with your request.

Taxpayer A's spouse, Taxpayer B, maintained IRA X, an individual retirement arrangement described in section 408(a) of the Internal Revenue Code (the "Code"), with Company M. In 1998, on the advice of Company M, Taxpayer B converted IRA X into Roth IRA Y with Company M. The amount rolled over from IRA X to IRA Y was Sum N. Taxpayers A and B jointly and timely filed their calendar year 1998 federal income tax return with extensions. With respect to calendar year 1998, Taxpayer A's and Taxpayer B's modified adjusted gross income exceeded the limit found in section 408A(c)(3)(B). Taxpayers A and B believed that they were eligible for the conversion to a Roth IRA since their tax return preparer did not inform them otherwise; also, their 1998 return recognized as taxable income one-fourth of Sum N because the conversion amount is being recognized over four years.

Taxpayers A and B were unaware that they were ineligible for the Roth IRA conversion until

preparing their 1999 income tax return in year 2000, and therefore Taxpayer B missed the deadlines provided in Announcement 99-57, 1999-24 I.R.B. 50 (June 14, 1999) and Announcement 99-104, 1999-44 I.R.B. 555 (November 1, 1999), which would have allowed Taxpayer B to recharacterize the failed Roth conversion until December 31, 1999. In the year 2000, Taxpayers A and B were informed by their tax return preparer that Taxpayer B was ineligible for the 1998 Roth conversion due to the $100,000 limitation in Code section 408A(c)(3)(B). This request for section 301.9100 relief was submitted prior to the Service's discovering Taxpayer B's ineligibility to convert her traditional IRA into a Roth IRA and prior to discovering that the recharacterization back to a traditional IRA was not made within the time limits found in the above announcements.

Based on your submission and the above facts and representations, you request a ruling that pursuant to section 301.9100-3 of the regulations, Taxpayer B is granted a period not to exceed six months from the date of this ruling letter to recharacterize her Roth IRA Y back to a traditional IRA.

With respect to your ruling request, Code section 408A(d)(6) and section 1.408A-5 of the federal Income Tax Regulations (the "I.T. 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 originally 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, Q&A-6 of the I.T. Regulations 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.

Code section 408A(c)(3) provides that an individual with an adjusted gross income (as modified within the meaning of subparagraph (c)(3)(C)) in excess of $100,000 for a taxable year is not permitted to make a qualified rollover contribution to a Roth IRA from an individual retirement plan other than a Roth IRA during that taxable year.

Section 1.408A-4, Q&A-2 of the I.T. Regulations provides 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 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 (AGI) 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 regulations provide guidance concerning requests for relief submitted to the Service on or after December 31, 1997. Section 301.9100-1(c) provides that the Commissioner of Internal Revenue, 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 of the regulations lists certain elections for which automatic extensions of time to file are granted. Section 301.9100-3 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 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 Internal Revenue Service (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 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 provided that a taxpayer who timely filed his or 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 provided that a taxpayer who timely filed his or 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.

In this case, Taxpayer B was not eligible to convert her traditional IRA to a Roth IRA since Taxpayer A's and Taxpayer B's combined modified adjusted gross income exceeded $100,000. Taxpayers A and B timely filed their joint 1998 federal income tax return with extensions. Thus, they were eligible for relief under Announcements 99-57 and 99-104. However, they missed the deadlines provided under these announcements because they were unaware that they were ineligible for the Roth IRA conversion until the year 2000. Therefore, it is necessary to determine whether they are eligible for relief under the provisions of section 301.9100-3 of the regulations.

Although Taxpayers A and B were ineligible for the 1998 Roth IRA conversion, their tax return preparer did not inform them of their ineligibility until the year 2000 when Taxpayer A's and Taxpayer B's 1999 calendar year return was being prepared. At this time, the tax return preparer discovered the previous year's mistake in recognizing one-fourth of Sum N as taxable income on the 1998 return. Upon realizing the mistake, Taxpayers A and B requested relief from the Service before the Service discovered the failure to make a timely election to recharacterize IRA Y back to a traditional IRA pursuant to Announcements 99-57 and 99-104. The 1998 calendar taxable year is not closed by the statute of limitations. Thus, Taxpayers A and B satisfy the requirements of clauses (i), (iii) and (v) of section 301.9100-3(b)(1) of the regulations. Accordingly, we rule that, pursuant to section 301.9100-3 of the regulations, Taxpayer B is granted a period not to exceed six months from the date of this letter to recharacterize IRA Y back to a traditional IRA.

This letter assumes that the above IRAs qualify under Code section 408 at all relevant times.

This letter is directed only to the taxpayer who requested it. Code section 6110(k)(3) provides that it may not be used or cited as precedent.

Pursuant to a power of attorney on file with this office, a copy of this ruling letter is being sent to your authorized representative. Should you have any concerns regarding this ruling, please contact at .

Sincerely yours,

John Swieca, Manager
Employee Plans Technical Group 1
Tax Exempt and Government Entities Division

cc:

Enclosures:
Deleted copy of letter
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