

IRS EXTENDS TIME FOR ROTH IRA CHANGES

WASHINGTON -- The Internal Revenue Service is giving taxpayers until the end of the year to change their Roth IRA contributions or conversions for 1998 back to traditional IRAs. This will be especially important for those who converted a traditional IRA to a Roth IRA but later found that they were not eligible to do so.

Taxpayers who filed their returns on time had until October 15 to make these changes, called recharacterizations. The IRS is extending this deadline to December 31, 1999, in light of the newness of the Roth IRA and problems that taxpayers have had in applying its rules and limitations. The additional time gives taxpayers a chance to avoid the adverse consequences they would face if they failed to correct actions for which they were not qualified. These could include paying both regular and early-distribution taxes on the amounts involved.

The IRS is also sending letters to about 20,000 taxpayers who appear to be ineligible for the Roth IRA conversions they reported on their 1998 tax returns. People with more than \$100,000 of income and married persons who lived together but filed separate returns cannot convert traditional IRAs into Roth IRAs. The IRS is advising these taxpayers to take corrective action if, in fact, they did not qualify to make the conversions.

A taxpayer's income may also lower the \$2,000 annual limit on Roth IRA contributions. Those affected are married couples filing jointly with incomes between \$150,000 and \$160,000, married persons with incomes under \$10,000 who lived together but filed separate returns, and all other filers with incomes between \$95,000 and \$110,000. Taxpayers whose incomes exceed these phaseout ranges cannot contribute to a Roth IRA.

To recharacterize a 1998 Roth IRA contribution or conversion, a person must take the necessary corrective action with the Roth IRA trustee by December 31. The taxpayer will generally have until April 15, 2002, to file an amended tax return showing the proper result.

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