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TAXPAYERS MAY STILL CORRECT IMPROPER ROTH IRA CONVERSIONS

WASHINGTON -- Some tax returns this year have reported the conversion of a traditional individual retirement arrangement (IRA) into a Roth IRA despite the taxpayer’s income being above the $100,000 limit for making such conversions. The Internal Revenue Service says that taxpayers who do not qualify for Roth IRA conversions have until the filing deadline to correct their mistake and avoid possible penalties.

Roth IRAs first became available in 1998. Taxpayers may transfer ("convert") amounts in a traditional IRA to a Roth IRA if their income -- not counting the taxable amount of the conversion -- is not more than $100,000 and they are not married filing separately. The same income limit applies to both single and joint returns.

Those who converted traditional IRAs to Roth IRAs in 1998 and now find that they exceeded the $100,000 income limit should correct these "failed conversions" by transferring the conversion amount plus related earnings back to traditional IRAs ("recharacterizations"). They should contact the IRA trustee to do this. If their 1999 income will not exceed $100,000, they may convert all or part of a traditional IRA to a Roth IRA this year.

Ineligible taxpayers must usually recharacterize by April 15. Those who get filing extensions have until their extended due date to recharacterize. Failure to correct the mistake could mean a ten-percent early withdrawal tax for those under age 59½ and an excess contribution tax if a person put too much into a Roth IRA in 1998.

A taxpayer who has already filed a tax return reporting a Roth IRA conversion and who recharacterizes it by April 15 should file an amended return using Form 1040X, and attach Form 8606, “Nondeductible IRAs,” to report the IRA transactions.

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