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Internal Revenue Service

UIC: 9100.00-00

Department of the Treasury

Washington, DC 20224

Person to Contact:

Telephone Number:

Refer Reply to:
T:EP:RA:T3 ID: 50-03192

Date:
JUL - 9 2001

LEGEND:

Taxpayer A:

Taxpayer B:

IRA X:

IRA Y:

Company M:

Sum N:

Date 1:

Dear :

This is in response to the , letter, submitted by you, as supplemented by correspondence dated , in which you request relief under section 301.9100-3 of the Procedure and Administration Regulations. The following facts and representations support your ruling request.

Taxpayer B maintained IRA X, an individual retirement arrangement described in Code section 408(a), with Company M. On Date 1, 1998, Taxpayer B converted IRA X to a Roth IRA, IRA Y, also with Company M. The amount transferred to IRA Y was Sum N.

Taxpayer B is married to Taxpayer A. Taxpayers A and B's adjusted gross income for 1998 exceeded the limit found at section 408A(c)(3)(B) of the Internal Revenue Code. However, when Taxpayer B converted her traditional IRA X to her Roth IRA Y, she was unaware that income derived from a one-time sale of an interest in a

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limited partnership was considered in determining her adjusted gross income for IRA conversion purposes.

Subsequent to December 31, 1998, but prior to December 31, 1999, Taxpayers A and B were advised by their accountant that they were ineligible to convert Taxpayer B's IRA X to Roth IRA Y and that said Roth IRA Y should be recharacterized as a traditional IRA. Taxpayer B did not recharacterize her Roth IRA Y to a traditional IRA prior to December 31, 1999, and Taxpayer B did not advise the Internal Revenue Service that she had done so.

This request for relief under section 301.9100-3 of the Procedure and Administration Regulations was filed with the Internal Revenue Service prior to the Service's discovering that Taxpayer B was not eligible to convert her IRA X to Roth IRA Y and prior to the Service's discovering that Taxpayer B had not timely recharacterized her Roth IRA Y as a traditional IRA. As of the date of this ruling request, Taxpayer B's Roth IRA Y had not been recharacterized.

Taxpayers A and B timely filed their calendar year 1998 Federal Income Tax Return. 1998 is not a "closed" tax year.

Based on the above, you, through your authorized representative, request the following letter 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, IRA Y, as a traditional IRA.

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.

Code section 408A(c)(3), provides, in relevant part, that an individual with adjusted gross income 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, 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 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 timely filed their 1998 Federal Income Tax Return. As a result, Taxpayer B was eligible for relief under either Announcement 99-57 or Announcement 99-104. However, she missed the deadlines found in said Announcements. Therefore, it is necessary to determine if she is eligible for relief under the provisions of section 301.9100-3 of the regulations.

In this case, Taxpayer B was ineligible to convert her IRA X to Roth IRA Y since her adjusted gross income exceeded $100,000. However, at the time of the conversion and until she discovered otherwise during calendar year 1999, Taxpayer B believed that her IRA X had been properly converted to a Roth IRA, IRA Y. Although Taxpayer B was aware that she ought to have recharacterized her Roth IRA Y to a traditional IRA, she did not do so by December 31, 1999, the date required under Announcement 99-104. However, Taxpayer B's ineligibility to convert her IRA X to Roth IRA Y and her failure to timely recharacterize her Roth IRA Y were not discovered by the Service prior to her filing this request for letter ruling.

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 a traditional IRA. Specifically, the Service has concluded that you have met the requirements of clause (i) of section 301.9100-3(b)(1) of the regulations.

Therefore, with respect to your ruling request, the Service concludes as follows:

That, pursuant to section 301.9100-3 of the regulations, Taxpayer B is granted a period of time, not to exceed six months from the date of this letter ruling, to recharacterize her Roth IRA Y to a traditional IRA.

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 taxpayer that requested it. Section 6100(j)(3) of the Code provides that it may not be used or cited as precedent.

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