



TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

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

200414047

JAN 05 2004

Uniform Issue List: 408.00-00

*T:EP:RA:TI*

Legend:

Taxpayer A =

Taxpayer B =

IRA X =

IRA Y =

Company M =

Dear :

This is in response to a ruling request dated November 5, 2003, as supplemented by additional correspondence dated December 9, 2003, from your authorized representative, in which you request relief under sections 301.9100-1 and 301.9100-3 of the Procedure and Administration Regulations ("Regulations").

The following facts and representations have been submitted:

Taxpayer A is married to Taxpayer B. During the 2001 calendar year, Taxpayer A converted a traditional individual retirement account (IRA X) maintained with Company M to a Roth IRA Y, also maintained with Company M. Subsequent to the purported transaction, Taxpayers A and B discovered that their combined adjusted gross income (\$112,044) for calendar year 2001 exceeded the limit found at section 408A(c)(3)(B) of the Internal Revenue Code ("Code"). At the time of the purported conversion, Taxpayers A and B were unaware they were not eligible to convert Taxpayer A's traditional IRA to a Roth IRA.

Taxpayer A believed that he had until the end of the 2002 calendar year to recharacterize the conversion. In October of 2002, Taxpayer A contacted his tax advisor planning to recharacterize the ineligible conversion, and was advised that it was now too late to do so. The Taxpayers have not amended their joint 2001 tax return to recognize any income from the conversion. In addition, the Taxpayers have received no notices from the Internal Revenue Service regarding the purported conversion.

As of the date of this request, to the best of Taxpayer A and B's knowledge, the Internal Revenue Service has not discovered Taxpayers' failure to make the election to recharacterize Roth IRA Y to a traditional IRA.

Based on the foregoing facts and representations, you have requested the following ruling: that, pursuant to sections 301-9100-1 and 301-9100-3 of the Regulations, Taxpayers A and B are granted a period not to exceed 60 days from the date of this ruling letter to make an election under section 1.408A-5 of the Regulations to recharacterize Taxpayer A's Roth IRA Y to a traditional IRA.

With respect to your request for relief under section 301.9100-3 of the Regulations, Code section 408A(d)(6) and section 1.408A-5 of the 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, of the Regulations 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.

Section 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) 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 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 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's 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.

Section 301.9100-3(c)(1)(i) of the Regulations indicates that the interests of the government are prejudiced if granting relief will result in a taxpayer (or taxpayers, if more than one taxpayer is affected by the tax consequences of the election) having a lower tax liability in the aggregate for all years to which the election applies than the taxpayer (or taxpayers, if more than one is affected) would have had if the election had been made on a timely basis.

When a taxpayer is unable to meet the requirements of section 301.9100-2 of the Regulations for an automatic extension of time to make an election, as is the case here, section 301.9100-3 indicates that relief will be granted if the taxpayer provides evidence establishing that: the taxpayer acted reasonably and in good faith, and granting relief will not prejudice the interests of the government.

In this case, Taxpayers A and B were ineligible to convert Taxpayer A's traditional IRA X to Roth IRA Y since their adjusted gross income exceeded \$100,000. However, until they discovered otherwise, which discovery occurred after Taxpayer A "converted" IRA X to Roth IRA Y, Taxpayers A and B were unaware of the requirements of section 1.408A-5 of the Regulations. Taxpayers A and B filed this request for section 301.9100 relief after filing their joint 2001 Federal Income Tax Return and after being advised to take such action by their tax advisor. With respect to Taxpayers A and B, 2001 is not a "closed" tax year. Finally, prior to Taxpayer A's and B's filing this request for relief under sections 301.9100-1 and 301.9100-3, the Internal Revenue Service had not discovered Taxpayer A and B's ineligibility to convert IRA X to Roth IRA Y.

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. In addition, we believe that granting relief will not prejudice the interests of the government. 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, you are granted an extension of 60 days 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 ruling is based on the assumption that IRA X and Roth IRA Y meet the requirements Code sections 408 and 408A (where applicable), respectively, at all relevant times.

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

Copies of this ruling have been sent to your authorized representatives pursuant to a power of attorney on file in this office.

Should you have any questions concerning this letter ruling, please contact  
SE:T:EP:RA:T1 ( ), of my staff at .

Sincerely yours,



Acting Manager  
Technical Group 1

Enclosures:

Deleted Copy of the Ruling  
Notice 437

cc: