

Part IV. Items of General Interest

Time for Recharacterizing 1998 IRA Contributions

Announcement 99-104

Purpose

The first year for which Roth IRAs could be established was 1998. It has come to the attention of the Internal Revenue Service and Treasury that taxpayers have experienced particular difficulty in properly applying the rules governing Roth IRA conversion contributions and recharacterizations. In view of the tax consequences of excess IRA contributions, the Service and Treasury believe that additional time should be provided for taxpayers who made 1998 Roth IRA conversion contributions or other 1998 IRA contributions and who would like to recharacterize those contributions.

This announcement provides relief to taxpayers who would like to recharacterize 1998 IRA contributions, including amounts contributed to Roth IRAs as conversions when the taxpayers were not eligible. Pursuant to this announcement, these taxpayers have until the end of 1999 to recharacterize their 1998 IRA contributions.

Background

Section 408A(d)(6) of the Internal Revenue Code and § 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 § 408A(d)(6) and § 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 return for the year of the contribution.

Section 1.408A-5, Q&A-6, describes how a taxpayer makes the election to recharacterize an 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 transfer, and (3) the trustee must make the transfer.

Section 301.9100-2(b) of the regulations generally provides for an automatic extension of 6 months from the due date of a return, excluding extensions, to make elections that otherwise must be made by the due date of the return or the due date of the return plus extensions, provided (1) the taxpayer's return was timely filed for the year the election should have been made and (2) the taxpayer takes appropriate corrective action within this 6-month period. Announcement 99-57, 1999-24 I.R.B. 50 (June 14, 1999) describes the application of § 301.9100-2(b) to recharacterization elections.

Extension of Time to Recharacterize 1998 IRA Contributions

Pursuant to § 408A(d)(6), a taxpayer will be deemed to have timely made an otherwise valid recharacterization of a 1998 IRA contribution, including a Roth IRA conversion for which the taxpayer was not eligible, if (1) the recharacterization occurs on or before December 31, 1999, (2) the taxpayer timely filed his or her 1998 Federal income tax return, and (3) the taxpayer files an amended 1998 return if the recharacterization is not properly reflected on the previously filed return.

Effect on Other Documents

Announcement 99-57 is modified.