TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

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

200218040

FEB - 7 2002

UIC: 9100.00-00

T:EP:RAT:3

LEGEND:

Taxpayer A:

Taxpayer B:

Attorney C:

IRA V:

IRA W:

IRA X:

Roth IRA Y:

Roth IRA Z:

IRA D:

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IRA E:

Company L:

Month 1:

Month 2:

Amount 3:

Month 4:

Date 5:

Date 6:

Dear Mr. and Mrs. :

This is in response to the , letter, submitted by your authorized representative on your behalf, 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 A maintained IRA V and IRA W, individual retirement arrangements described in Code section 408(a), with Company L. During Month 1, 1998, Taxpayer A converted IRAs V and W to a Roth IRA, Roth IRA Y, also with Company L.

Taxpayer B maintained IRA X, an individual retirement arrangement described in Code section 408(a) with Company L. During Month 2, 1998, Taxpayer A converted IRA X to a Roth IRA, Roth IRA Z, also with Company L.

Taxpayers A and B timely filed their joint calendar year 1998 Federal Income Tax Return with the assistance of a tax preparer, Attorney C. Said joint calendar year 1998 return reflected the above referenced conversions of the traditional IRAs to the Roth IRAs. Taxpayer A and Taxpayer B's joint 1998 Federal Income Tax Return reflected an adjusted gross income of Amount 3, which amount exceeded $100,000. At the time that they filed their 1998 return, however, Taxpayers A and B were not aware that, because their adjusted gross income exceeded $100,000, they were ineligible to convert their traditional IRAs to Roth IRAs. Furthermore, their tax preparer, Attorney C, because of a

computer program error, did not advise Taxpayers A and B that they were ineligible to convert their traditional IRAs to Roth IRAs.

Taxpayer A "reconverted" her Roth IRA Y to a traditional IRA, IRA D, which was given the same account number as IRA V, with Company L, during Month 4, 2000. Additionally, Taxpayer B "reconverted" his Roth IRA Z to a traditional IRA, IRA E, which was given the same account number as IRA X, with Company L, during Month 4, 2000. Taxpayers A and B also filed an amended calendar year 1998 Federal Income Tax Return which was intended to show that they had not "converted" their traditional IRAs to Roth IRAs during 1998 as noted above.

Subsequently, during Month 2, 2000, the Internal Revenue Service issued a Notice of Deficiency with respect to Taxpayers A and B's joint 1998 Federal Income Tax Return. The deficiency related to their claiming a child tax credit.

On Date 5, 2001, Taxpayers A and B, through their attorney, Attorney C, filed a petition with Tax Court relating to the child tax credit referenced above. The Date 6, 2001, Internal Revenue Service response to the Date 5, 2001 petition, asserted, in relevant part, that the 1998 conversions of traditional IRAs to Roth IRAs, referenced above, were invalid and that neither Taxpayer A nor Taxpayer B had recharacterized her or his Roth IRA as a traditional IRA by December 31, 1999.

This request for relief pursuant to section 301.9100-3 of the regulations was filed on behalf of Taxpayers A and B by Attorney C.

As noted above, 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 A's Month 4, 2000 recharacterization of her Roth IRA Y to a traditional IRA, IRA D, and Taxpayer B's Month 4, 2000, recharacterization of his Roth IRA Z to a traditional IRA, IRA E, are valid.

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 return 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(a), 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. Q&A(b) provides, in summary, that married individuals must file a joint federal tax return in order to convert an amount to a Roth IRA during a taxable year. Additionally, married individuals must have adjusted gross income not in excess of $100,000 derived from the joint return using the couple's combined income in order to convert an amount to a Roth IRA during a taxable year.

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 of the regulations 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 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 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, Taxpayers A and B were eligible for relief under either Announcement 99-57 or Announcement 99-104. However, they missed the deadlines found in said Announcements. Therefore, it is necessary to determine if they are eligible for relief under the provisions of section 301.9100-3 of the regulations. Additionally, it is necessary to determine if they are eligible for relief although the issue presented in this ruling request is currently before the Tax Court.

In this case, Taxpayers A and B were ineligible to convert their IRAs V, W, and X to Roth IRAs Y and Z since their adjusted gross income exceeded $100,000. However, at the time of the conversion and until they discovered otherwise during calendar year 2000 because of their contacts with Attorney C, Taxpayers A and B believed that their IRAs V, W, and X had been properly converted to Roth IRAs, Roth IRA Y and Roth IRA Z. Furthermore, Taxpayer A and Taxpayer B relied upon the advice of a tax preparer, Attorney C, in completing and filing their calendar year 1998 Federal Income Tax Return.

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(s) as traditional IRA(s). Specifically, the Service has concluded that you have met the requirements of clauses (ii) and (v) 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 A's Month 4, 2000 recharacterization of her Roth IRA Y to a traditional IRA, IRA D, and Taxpayer B's Month 4, 2000, recharacterization of his Roth IRA Z to a traditional IRA, IRA E, are valid.

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.

Please note that in conjunction with recharacterizing Taxpayer A's and Taxpayer B's Roth IRAs Y and Z, Taxpayer A and Taxpayer B must file an amended calendar year 1998 Federal Income Tax Return consistent with this ruling letter if they have not already done so.

Pursuant to a power of attorney on file with this office, a copy of this letter ruling is being sent to your authorized representative.

200218040

This letter ruling was prepared by , of this Branch. He can be reached at .

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

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