



TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

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

200210067

UIL No.: 9100.00-00

DEC 12 2001

Legend:

T:EP:RA:T2

Taxpayer A.....

Taxpayer B.....

IRA u.....

IRA v.....

IRA W.....

IRA X.....

IRA Y.....

IRA Z.....

Company L.....

Company M.....

Sum N.....

Sum O.....

Sum P.....

Dear

This is in response to a letter dated May 31, 2001, as supplemented by correspondence dated July 17, 2001, October 4, 2001, November 20, 2001, and November 27, 2001, in which you request relief under section 301.9100-3 of the Procedure and Administration Regulations (the "regulations"). The following facts and representations were submitted in connection with your request.

Taxpayer A maintained IRA U and IRA V, both of which were individual retirement arrangements described in section 408 of the Internal Revenue Code (the "Code"), with Company L and Company M, respectively. Taxpayer A's spouse, Taxpayer B, maintained IRA W, an individual retirement arrangement described in section 408, with Company M. In 1998, Taxpayers A and B converted IRA U, IRA V, and IRA W to Roth IRA X, Roth IRA Y, and Roth IRA Z, respectively. Roth IRA X is maintained by Company L, and Roth IRAs Y and Z are maintained by Company M. The amount converted from traditional IRA U to Roth IRA X was Sum N; the amount converted from traditional IRA V to Roth IRA Y was Sum 0; and the amount converted from traditional IRA W to Roth IRA Z was Sum P. Taxpayers A and B jointly and timely filed their calendar year 1998 federal income tax return. With respect to calendar year 1998, Taxpayer A's and Taxpayer B's modified adjusted gross income exceeded the limit found in section 408A(c)(3)(B).

Taxpayers A and B used a professional tax advisor in preparing their calendar year 1998 federal income tax return, and were not informed that they were not eligible for the Roth IRA conversions since their modified adjusted gross income exceeded the \$100,000 limit. Taxpayers A and B had no reason to believe they had made failed conversions because their joint 1998 income tax return, as prepared, reflected that the conversion amounts were to be taken into income ratably over four years. Taxpayers A and B were not aware of their ineligibility for the 1998 Roth conversions until April of 2001 when they met with their current tax return preparer. Therefore, Taxpayers A and B missed the deadlines provided in Announcement 99-57, 1999-24 I.R.B. 50 (June 14, 1999) and Announcement 99-104, 1999-44 I.R.B. 555 (November 1, 1999), which would have allowed Taxpayers A and B to recharacterize the failed Roth conversions until December 31, 1999. This request for relief under section 301.9100-3 of the regulations was submitted prior to the Service's discovering Taxpayer A's or Taxpayer B's ineligibility to convert IRAs U, V and W into Roth IRAs and prior to discovering that the recharacterization back to traditional IRAs was not made within the time limits found in the above announcements.

Based on your submission and the above facts and representations, you request a ruling that pursuant to section 301.9100-3 of the regulations, Taxpayers A and B are granted an extension to recharacterize Roth IRAs X, Y and Z back to traditional IRAs.

With respect to your ruling request, Code section 408A(d)(6) and section 1.408A-5 of the federal Income Tax Regulations (the "LT. 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 originally 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, Q&A-6 of the I.T. Regulations 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 that an individual with an adjusted gross income (as modified within the meaning of subparagraph (c)(3)(C)) 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 I.T. Regulations provides 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 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 (AGI) 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 regulations 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 Internal Revenue, 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 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 Internal Revenue Service (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 provided that a taxpayer who timely filed his or 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 provided that a taxpayer who timely filed his or 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.

In this case, Taxpayers A and B were not eligible to convert traditional IRAs U, V and W to Roth IRAs since their combined modified adjusted gross income for 1998 exceeded \$100,000. Taxpayers A and B timely tiled their joint 1998 federal income tax return. Thus, they were eligible for relief under Announcements 99-57 and 99-104. However, they missed the deadlines provided under these announcements because they were unaware that they were ineligible for the Roth IRA conversions until the year 2001. Therefore, it is necessary to determine whether they are eligible for relief under the provisions of section 301.9100-3 of the regulations.

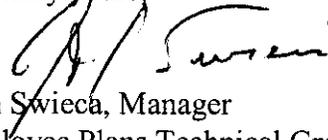
Although Taxpayers A and B were ineligible for the 1998 Roth IRA conversions, they were not so informed until they met with their current tax return preparer in the year 2001. Upon realizing their mistake, Taxpayers A and B requested relief from the Service before the Service discovered their ineligibility to convert IRAs U, V, and W into Roth IRAs and before the Service discovered the failure to make a timely election to recharacterize Roth IRAs X, Y and Z back to traditional IRAs pursuant to Announcements 99-57 and 99-104. The 1998 taxable year is not closed under the statute of limitations. Thus, Taxpayers A and B satisfy the requirements of clauses (i), (iii), and (v) of section 301.9100-3(b)(1) of the regulations. Accordingly, we rule that, pursuant to section 301.9100-3 of the regulations, Taxpayer A and Taxpayer B are granted a period not to exceed six months from the date of this ruling letter to recharacterize IRAs X, Y and Z back to traditional IRAs.

This letter assumes that the above IRAs qualify under Code section 408 at all relevant times.

This letter is directed only to the taxpayers who requested it. Code section 6110(k)(3) provides that it may not be used or cited as precedent.

Pursuant to a power of attorney on file with this office, the original of this ruling letter is being sent to your authorized representative. Should you have any concerns regarding this ruling, please contact

Sincerely yours,

A handwritten signature in black ink, appearing to read "John Swieca". The signature is written in a cursive style with a large initial "J" and "S".

John Swieca, Manager  
Employee Plans Technical Group 1  
Tax Exempt and Government Entities Division

cc:

Enclosures:

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Notice 437