

MEMO# 9454

November 25, 1997

LETTER TO IRS ON ROTH IRA CONVERSION REPORTING ISSUES

[9454] November 25, 1997 TO: PENSION COMMITTEE No. 47-97 PENSION OPERATIONS
ADVISORY COMMITTEE No. 46-97 RE: LETTER TO IRS ON ROTH IRA CONVERSION
REPORTING ISSUES

_____ Last week, the Institute sent a letter to the Internal Revenue Service regarding various Roth IRA reporting issues. This letter discusses the ability of the mutual fund industry to facilitate tax reporting for Roth IRA conversions executed via direct transfers. In addition, the letter reiterates our request regarding priority guidance from the Service concerning Roth IRA issues. At a recent meeting involving industry representatives and various Service representatives, we discussed the reporting issues that arise pursuant to Roth IRA conversions. Specifically, we discussed the differences between current trustee-to-trustee transfers that do not require tax reporting and Roth IRA conversions that will require tax reporting. The Service raised the concern that financial institutions will not properly report future "trustee-to-trustee" transfers involving Roth IRA conversions, i.e., issue a Form 1099-R and Form 5498, and requested assurance that financial institutions will properly report these transactions. In the letter, we described a current distribution methodology that may serve as a model for Roth IRA conversions executed via a direct transfer. We emphasize that this is not the exclusive means to facilitate a Roth IRA conversion, however, it is a distribution method that is currently utilized and should not raise new systems or operations issues. The Service has discussed requiring tax reporting for all trustee-to-trustee transfers as an alternative method. In our letter, we emphasized that this alternative would confuse taxpayers and inundate the Service with unnecessary tax filings. Finally, we requested that the Service issue guidance concerning the custodial and trustee documents for the Roth IRA. Specifically, we requested that the Service issue guidance concerning the ability of financial institutions to combine the Roth IRA custodial or trustee documents with traditional IRA documents and issue model language for these documents. A copy of the letter is attached. Kathryn A. Ricard Assistant Counsel - Pension Attachment (in .pdf format)