

MEMO# 10392

October 20, 1998

IRS NOTICE LIMITS ROTH CONVERSIONS

[10392] October 20, 1998 TO: PENSION COMMITTEE No. 69-98 PENSION OPERATIONS
ADVISORY COMMITTEE No. 52-98 TRANSFER AGENT ADVISORY COMMITTEE No. 67-98 AD
HOC ROTH IRA COMMITTEE RE: IRS NOTICE LIMITS ROTH CONVERSIONS

The Internal Revenue Service today released Notice 98-50 to address questions regarding whether a taxpayer who has converted a traditional IRA to a Roth IRA may not only transfer the amount back to a traditional IRA in a recharacterization, but also subsequently "reconvert" that amount from the traditional IRA to a Roth IRA. The Notice sets forth interim rules that describe the tax treatment of such reconversions - effectively limiting the number of such reconversion transactions that a taxpayer may complete to one per year. The rules are effective prospectively as of November 1, 1998 and apply for 1998 and 1999. The Notice provides seven examples of the application of these interim rules. 1. "Excess Conversions". A taxpayer who converts an amount from a traditional IRA to a Roth IRA during 1998 and then transfers that amount back to a traditional IRA by means of a recharacterization, is eligible to reconvert that amount to a Roth IRA once on or after November 1, 1998 and on or before December 31, 1998. The taxpayer also is eligible to reconvert that amount only once during 1999. A taxpayer who converts an amount from a traditional IRA to a Roth IRA during 1999 that has not been converted previously and then transfers back to a traditional IRA by means of a recharacterization is eligible to reconvert that amount to a Roth IRA only once on or before December 31, 1999. Any other conversion in excess of the number permitted by these rules is deemed an "excess reconversion." In determining whether a taxpayer has made a previous conversion for purposes of these rules, an attempted conversion for which the taxpayer is not eligible for reasons set forth in section 1.408A-4, Q&A-3 of the proposed regulations -- i.e., a conversion for which an individual is not eligible because he or she exceeds income limitations -- will not be treated as a conversion. 2. Tax Consequences of Excess Conversion. An excess reconversion and the last preceding recharacterization will not be taken into account for purposes of determining the taxpayer's taxable conversion amount, which will be based on the last reconversion that was not an excess reconversion. (An excess reconversion, however, will otherwise be treated as a valid reconversion.) The Service invites comment on these interim regulations under the procedures established for commenting on the previously issued proposed regulations regarding the Roth IRA. Russell G. Galer Senior Counsel