

MEMO# 11863

May 9, 2000

IRS RELEASES PRIVATE LETTER RULING PROHIBITING NON-SPOUSAL BENEFICIARIES FROM CONVERTING TRADITIONAL IRAS TO ROTH IRAS

[11863] May 9, 2000 TO: PENSION COMMITTEE No. 33-00 RE: IRS RELEASES PRIVATE LETTER RULING PROHIBITING NON-SPOUSAL BENEFICIARIES FROM CONVERTING TRADITIONAL IRAS TO ROTH IRAS

The Internal Revenue Service recently released Private Letter Ruling 200013041, which held that children beneficiaries of their parents' traditional IRAs could not convert them to Roth IRAs. The facts are as follows. A married couple died as a result of a car crash. The wife died the day of the crash and the husband died several days later. Each spouse owned a traditional IRA and neither had reached the required beginning date for distributions. Each spouse named the other as the beneficiary of his or her IRA account. A trust that the couple had previously established was the contingent beneficiary of each IRA ("Trust 1"). Upon the death of either of the spouses, two new trusts were to be created ("Trusts 2 and 3"). The income of Trust 1 was to be paid to the surviving spouse and the couple's children. Before the husband's death, his personal representative disclaimed any interest he had in his wife's IRA account or in the right to receive income from the new trusts. The couple's children wanted to have separate and equal shares of their parents' IRAs transferred in trustee-to-trustee transfers to separate IRAs to pursue different investment objectives. In addition, both children wanted to convert the IRA accounts to Roth IRAs. The IRS held that the disclaimers executed on behalf of the husband and his estate were valid disclaimers. The IRS ruled that Trust 1 satisfied the requirements of Proposed Regulation 1.401(a)(9)-1 so that the couple's two adult children were treated as the designated beneficiaries of their deceased parents' IRAs for purposes of the period over which distributions must be made from the IRAs. The distributions were not subject to the 5-year rule and could be made over the life expectancy of the older child. Finally, the IRS held that the children could not convert their inherited IRAs to Roth IRAs. The IRS noted that a distribution from an inherited IRA to a non-spousal beneficiary is not eligible for treatment as a qualified rollover contribution under 408A(e) and 408(d)(3). A copy of PLR 200013041 is attached. Kathryn A. Ricard Associate Counsel Attachment

should not be considered a substitute for, legal advice.