

MEMO# 9919

May 11, 1998

SENATE PASSES TECHNICAL CORRECTIONS LEGISLATION

1 See Institute Memorandum to Pension Committee No. 18-98 and Pension Operations Advisory Committee No. 12-98, dated March 30, 1998. 2 See Institute Memorandum to Pension Committee No. 40-97 and Pension Operations Advisory Committee No. 39-97, dated October 10, 1997. [9919] May 11, 1998 TO: PENSION COMMITTEE No. 28-98 PENSION OPERATIONS ADVISORY COMMITTEE No. 17-98 RE: SENATE PASSES TECHNICAL CORRECTIONS LEGISLATION

Late last week, the Senate passed H.R. 2676, the "Internal Revenue Service Restructuring and Reform Act of 1998." H.R. 2676 includes technical corrections to the Taxpayer Relief Act of 1997, which clarifies certain Roth IRA and Education IRA provisions. The Senate Technical Corrections legislation is identical to the Chairman's Mark, passed by the Senate Finance Committee in late March.¹ With respect to Roth IRA issues, the Senate technical corrections legislation differs significantly from the House technical corrections bill passed last fall.² H.R. 2676, as passed by the Senate, includes a provision that would modify the definition of adjusted gross income (AGI) for certain taxpayers. The provision would exclude required minimum distributions from a taxpayer's AGI for purposes of determining eligibility to convert a traditional IRA to a Roth IRA, i.e., for purposes of calculating the \$100,000 AGI limit for conversions. Note, however, that as under current law, the required minimum distribution would be includible in gross income and would not be eligible for conversion. This provision is effective in the year 2005. The bill also includes a provision exempting taxpayers from paying the 10% early withdrawal penalty under section 72(t) in certain levy situations. Although not included in the report accompanying the Chairman's Mark, the Senate technical corrections legislation includes a provision prohibiting the conversion of a SEP or SIMPLE to a Roth IRA. A similar provision was included in the House technical corrections legislation passed last October. It is anticipated that the bill will go to conference and that the House and Senate will vote on the bill prior to recess planned for May 22. A copy of the relevant provisions of H.R. 2676, including the technical corrections provisions, is attached. Kathryn A. Ricard Assistant Counsel Attachment