

Part IV. Items of General Interest

Time for Recharacterizing 1998 IRA Contributions

Announcement 99-57

Purpose

The Internal Revenue Service has been informed that some taxpayers who have already timely filed their 1998 Federal income tax returns would like to recharacterize 1998 IRA contributions, including amounts contributed to Roth IRAs as conversions for which the taxpayers were not eligible (because their modified adjusted gross income exceeded \$100,000 or because they were married individuals filing separate returns). For these taxpayers, the deadline for making the election to recharacterize is 6 months after the unextended due date of their returns, as described below.

Background

Section 408A(d)(6) of the Internal Revenue Code and § 1.408A-5 of the regulations provide that a taxpayer may elect to recharacterize an IRA contribution made to one type of IRA as having been made to another type of IRA by transferring in a trustee-to-trustee transfer the IRA contribution, plus earnings, to the other type of IRA. For this purpose, the redesignation of an account with the same IRA trustee is treated as a trustee-to-trustee transfer. In a recharacterization, the IRA contribution is treated as having been made to the transferee IRA and not the transferor IRA. Under § 408A(d)(6) and § 1.408A-5, this recharacterization election must occur on or before the date prescribed by law, including extensions, for filing the taxpayer's Federal income tax return for the year of the contribution.

Section 1.408A-5, Q&A-6, describes how a taxpayer makes the election to recharacterize an 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 transfer and (3) the trustee must make the transfer.

Section 301.9100-2(b) of the regulations generally provides for an automatic extension of 6 months from the due date of a return, excluding extensions, to make elections that otherwise must be made by the due date of the return or the due date of the return plus extensions, provided (1) the taxpayer's return was timely filed for the year the election should have been made and (2) the taxpayer takes appropriate corrective action within this 6-month period.

Application of § 301.9100-2(b) to Recharacterization Elections

Pursuant to § 301.9100-2(b), in the case of a calendar-year-basis taxpayer who has timely filed his or her 1998 Federal income tax return, he or she can elect to recharacterize a 1998 IRA contribution, including a Roth IRA conversion for which the taxpayer was not eligible, provided the appropriate corrective action occurs on or before October 15, 1999. In this case, the appropriate corrective action requires taking the action described in § 1.408A-5, Q&A-6, including notifying the trustee (or trustees) and the trustee making the actual transfer (or account redesignation). The Service may invalidate a taxpayer's recharacterization election if the election is not properly reflected on the taxpayer's 1998 Federal income tax return. Thus, if the recharacterization election was not properly reflected on the return, a taxpayer taking advantage of the automatic extension described in this announcement must file an amended 1998 Federal income tax return properly reflecting the recharacterization. The amended return does not have to be filed by October 15, 1999, but must be filed by the normal deadline for amended returns.