



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

201004037

NOV 02 2009

SE: T: EP: RA: T1

UIL No.: 9100.00-00

Legend :

Taxpayer A.....*****

Taxpayer B.....*****

Financial Institution A.....*****

IRA A.....*****

Roth IRA X.....*****

Roth IRA Y.....*****

Amount 1.....\$ *****

Amount 2.....\$ *****

Amount 3.....\$ *****

Dear *****:

This is in response to a request dated *****, in which your authorized representative requests relief under section 301.9100-3 of the Procedure and Administration Regulations ("regulations") on your behalf. You submitted the following facts and representations in connection with your request.

Taxpayers A and B are spouses and filed joint federal income tax returns for both calendar years **** and ****.

Taxpayer A maintained IRA A, an individual retirement arrangement ("IRA"), described in section 408 of the Internal Revenue Code (the "Code"). On *****, Taxpayer A transferred Amount 1 from IRA A to Roth IRA X, with both accounts maintained by Financial Institution A. On *****, Amount 2 was directly rolled over from IRA A into Roth IRA X. On *****, Amount 3 was transferred from Roth IRA X into Roth IRA Y, also maintained at Financial Institution A. Amount 3 represents the two earlier rollovers of Amounts 1 and 2 plus earnings. Roth IRA X served as a holding account because Financial Institution A has a minimum investment requirement for Roth IRA Y. Once Taxpayer A had sufficient assets in Roth IRA X, to meet the minimum investment requirement for Roth IRA Y, the entire amount of Roth IRA X (Amount 3) was transferred into Roth IRA Y.

Taxpayer A had *** federal income tax returns for 2006 and 2007 prepared by tax professionals who did not inform *** that *** was ineligible for a Roth IRA conversion in either year. The tax professionals did not inform Taxpayer A of the need to recharacterize *** Roth conversion prior to the deadline for doing so. On Taxpayer A's returns for **** and ****, Amounts 1 and 2 were reported, respectively, as IRA distributions. Also, on Forms 1099-R issued for **** and ****, Amounts 1 and 2 were reported, respectively, as IRA distributions. It has been represented that the Service has not yet discovered Taxpayer A's failure to timely elect to recharacterize Roth IRA Y back to a traditional IRA.

Based on your submission and the above facts and representations, you request a ruling that, pursuant to section 301.9100-3 of the regulations, Taxpayer A be granted a period of 60 days in which to recharacterize Roth IRA Y back to a traditional IRA.

With respect to your request for relief under section 301.9100-3 of the regulations, Code section 408A(d)(6) and section 1.408A-5 of the federal Income Tax Regulations ("I.T. Regulations") provide that, except as otherwise provided by the Secretary, a taxpayer may elect to recharacterize an IRA contribution made to one type of IRA as having originally been made to another type of IRA by making a trustee-to-trustee transfer of the IRA contribution, plus earnings, to the other type of IRA. In a recharacterization, the IRA contribution is treated as having been made to the transferee IRA and not the transferor IRA. Under section 408A(d)(6) and section 1.408A-5, this recharacterization election generally 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 contributions.

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

Code section 408A(c)(3) provides that an individual with an adjusted gross income (as modified within the meaning of subparagraph (c)(3)(C)) in excess of \$100,000 for a taxable year is not permitted to make a qualified rollover contribution to a Roth IRA from an individual retirement plan other than a Roth IRA during that taxable year.

Section 1.408A-4, Q&A-2 of the I.T. Regulations provides that an individual with modified adjusted gross income in excess of \$ 100,000 for a taxable year is not permitted to convert an amount to a Roth IRA during that taxable year. Furthermore, Q&A-2 provides that in the case of a husband and wife who file a joint federal income tax return, the modified adjusted gross income subject to the \$100,000 limit is the modified adjusted gross income derived from the joint return using the couple's combined income.

Sections 301.9100-1, 301.9100-2, and 301.9100-3 of the regulations provide guidance concerning requests for relief submitted to the Internal Revenue Service ("Service") on or after December 31, 1997. Section 301.9100-1(c) provides that the Commissioner of Internal Revenue, in his discretion, may grant a reasonable extension of the time fixed by a regulation, a revenue ruling, a revenue procedure, a notice, or an announcement published in the Internal Revenue Bulletin for the making of an election or application for relief in respect of tax under, among others, Subtitle A of the Code.

Section 301.9100-2 of the regulations lists certain elections for which automatic extensions of time to file are granted. Section 301.9100-3 generally provides guidance with respect to the granting of relief with respect to those elections not referenced in section 301.9100-2. The relief requested in this case is not referenced in section 301.9100-2.

Section 301.9100-3 of the regulations provides that applications for relief that fall within section 301.9100-3 will be granted when the taxpayer provides sufficient evidence (including affidavits described in section 301.9100-3(e)(2)) to establish that (1) the taxpayer acted reasonably and in good faith, and (2) granting relief would not prejudice the interests of the Government.

Section 301.9100-3(b)(1) of the regulations provides that a taxpayer will be deemed to have acted reasonably and in good faith (i) if the taxpayer's request for section 301.9100-1 relief is filed before the failure to make a timely election is discovered by

the Service; (ii) if the taxpayer inadvertently failed to make the election because of intervening events beyond the taxpayer's control; (iii) if the taxpayer failed to make the election because, after exercising reasonable diligence, the taxpayer was unaware of the necessity for the election; (iv) the taxpayer reasonably relied upon the written advice of the Service; or (v) the taxpayer reasonably relied on a qualified tax professional, including a tax professional employed by the taxpayer, and the tax professional failed to make, or advise the taxpayer to make, the election.

Section 301.9100-3(c)(1)(ii) of the regulations provides that ordinarily the interests of the Government will be treated as prejudiced and that ordinarily the Service will not grant relief when tax years that would have been affected by the election had it been timely made are closed by the statute of limitations before the taxpayer's receipt of a ruling granting relief under this section.

In this case, Taxpayer A was not eligible to do a Roth IRA conversion in either **** or **** because *** modified adjusted gross income exceeded the \$100,000 limit in each year. Taxpayer A failed to recharacterize Roth IRA X or Roth IRA Y back to a traditional IRA within the time permitted by law. Therefore, it is necessary to determine whether Taxpayer A is eligible for relief under the provisions of section 301.9100-3 of the regulations.

Although Taxpayer A was ineligible for the **** and **** Roth IRA conversions, Taxpayer A was unaware that *** was ineligible until receiving notice from *** financial adviser that his modified adjusted gross income exceeded the limit. In a meeting with *** financial adviser after *****, Taxpayer A first became aware of the \$100,000 modified adjusted gross income limit, but it was too late to elect to recharacterize the failed conversions for either year. As a result, Taxpayer A requested this ruling after discovering *** mistake prior to the Service discovering *** failure to make a timely election to recharacterize. Also, Taxpayer A relied on tax professionals to prepare *** income tax returns for both **** and ****, and they did not inform *** that *** was ineligible to do a Roth conversion or of the need for a recharacterization election. Thus, Taxpayer A satisfies clauses (i) and (v) of section 301.9100-3(b)(1) of the regulations. In addition, the statute of limitations on Taxpayer A's 2006 and 2007 federal income tax returns remain open and the interests of the government would not be prejudiced by providing relief. Accordingly, we rule that, pursuant to section 301.9100-3 of the regulations, Taxpayer A is granted a period not to exceed 60 days from the date of this letter to recharacterize Roth IRA Y back to a traditional IRA.

This letter assumes that the above traditional IRA and Roth IRAs qualify under Code sections 408 and 408A, respectively, at all relevant times.

This letter is directed only to the taxpayer who requested it. Code section 6110(k)(3) provides that it may not be used or cited as precedent.

A copy of this letter has been sent to your authorized representative in accordance with a power of attorney on file with this office.

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Should you have any concerns regarding this ruling, please contact *****,
Identification Number *****, at (***) ***-****. Please address all correspondence to
*****.

Sincerely yours,

Carlton A. Watkins

Carlton A. Watkins, Manager
Employee Plans Technical Group 1