

201047032



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

TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

SEP 02 2010

SE: T, EP: RA: T1

UIL No.: 9100.00-00

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Legend:

- Taxpayer A.....\*\*\*\*\*
- Financial Institution A.....\*\*\*\*\*
- IRA A.....\*\*\*\*\*
- IRA B.....\*\*\*\*\*
- Roth IRA X.....\*\*\*\*\*
- Amount 1.....\$\*\*\*\*\*
- Amount 2.....\$\*\*\*\*\*

Dear \*\*\*\*\*:

This is in response to a request dated January 25, 2010, as supplemented by correspondence dated May 31, 2010, 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.

Taxpayer A maintained IRA A and IRA B, individual retirement arrangements ("IRAs"),

described in section 408 of the Internal Revenue Code (the "Code"). In December, 2011 Taxpayer A converted Amount 1 from IRA A to Roth IRA X, and converted Amount 2 from IRA B to Roth IRA X. All accounts are maintained by Financial Institution A.

Taxpayer A had her federal income tax return for 2008 prepared by a tax professional who was not aware that she was ineligible for a Roth IRA conversion in 2011 due in large part to income attributable to Taxpayer A not being reported until September 2011. The tax professional did not inform Taxpayer A of the need to recharacterize her Roth conversions within enough time to do so.

Taxpayer A received Forms 1099-R from Financial Institution A for 2011 reporting Amounts 1 and 2 as taxable distributions from IRAs A and B, respectively. Since Financial Institution A was unable to effect the recharacterization of Roth IRA X back to a traditional IRA before the due date for filing Taxpayer A's 2011 tax return, Financial Institution A has not had to reissue subsequent Forms 1099-R to reflect the recharacterization of Roth IRA X. Thus, the forms that the Service has received are inconsistent with Taxpayer A's 2011 tax return which was prepared to reflect the recharacterization. The Forms 1099-R on file with the Service continue to show Amounts 1 and 2 as taxable distributions that were not included in Taxpayer A's 2011 income, as reported on the return, a discrepancy that could have triggered an audit adjustment or at least an inquiry from the Service. Taxpayer A's January 2012 request for relief under section 301.9100-3 of the regulations was submitted to the Service prior to the Service discovering that Taxpayer A had failed to make a timely recharacterization of Roth IRA X 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 from the date of this letter ruling to recharacterize Roth IRA X 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 2008 because her modified adjusted gross income exceeded the \$100,000 limit of Code section 408A(c)(3). Taxpayer A failed to recharacterize Roth IRA X 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 2008 Roth IRA conversion, Taxpayer A was unaware that she was ineligible until receiving notice from her tax professional upon the completion and filing of her tax return one week before the October 15, 2008 extended due date. Taxpayer A was advised by her tax professional of the need to recharacterize Roth IRA X, but did not have adequate time to recharacterize the failed conversions before the due date of the return. As a result, Taxpayer A requested this ruling after discovering her mistake prior to the Service discovering her failure to make a timely election to recharacterize. 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 2008 federal income tax return remains open and the interests of the government would not be prejudiced by providing relief. Accordingly, the Service concludes 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 X back to a traditional IRA.

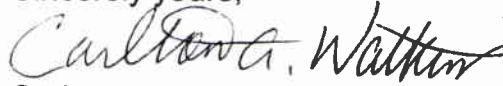
This letter assumes that the above traditional IRAs and Roth IRA qualify under Code sections 408 and 408A, respectively, at all relevant times.

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.

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

Sincerely yours,



Carlton A. Watkins, Manager  
Employee Plans Technical Group 1