



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

TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

SEP 14 2005

Index No. 9100.00-00

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*TIER:BA*

LEGEND:

- Taxpayer A = \*\*\*\*\*
- Taxpayer B = \*\*\*\*\*
- IRA X = \*\*\*\*\*
- IRA Y = \*\*\*\*\*
- Company M = \*\*\*\*\*
- Sum N = \*\*\*\*\*
- Partnership P = \*\*\*\*\*

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

This is in response to your letter dated February 24, 2005, as supplemented by correspondence dated September 13, 2005, submitted on your behalf by your authorized representative, in which you request relief under section 301.9100-3 of the Procedure and Administration Regulations (the "Regulations").

The following facts and representations have been submitted:

Taxpayer A maintained a traditional individual retirement arrangement, IRZ X, as described in section 408 of the Internal Revenue Code (the "Code"), with Company M. In [REDACTED] Taxpayer A believing that his modified adjusted gross income for [REDACTED] would not exceed \$100,000.00, established Roth IRA Y also with Company M and converted IRA X to Roth IRA Y. The amount converted from traditional IRA X to Roth IRA Y was Sum N.

In [REDACTED] Taxpayer A states that he was notified by Partnership P that its schedule Form K-1 for [REDACTED] would include additional interest and long term capital gain that would differ from the estimates provided at the time Taxpayer A converted IRA X to Roth IRA Y. It has been further represented that on [REDACTED] Taxpayer A prepared and signed Company M's recharacterization request forms, but waited to send them to Company M until Partnership P reported its final Form K-1, which you represent was issued in [REDACTED]

Taxpayer A's tax return preparer discovered that his modified adjusted gross income for [REDACTED] would exceed the limit found in section 408A(c)(3)(B). Taxpayer A represents that on October [REDACTED] he notified Company M that he was ineligible to convert traditional IRA X to Roth IRA Y and requested that Roth IRA Y be recharacterized as a traditional IRA. Due to delays in the mail, Company B did not receive Taxpayer A's request until [REDACTED] a date which is after the date required to recharacterize Sum N as a traditional IRA.

Company M did not recharacterize Roth IRA Y to a traditional IRA as Taxpayer A requested. Taxpayer A timely filed his [REDACTED] tax return on [REDACTED] his wife, Taxpayer B, reflecting no rollover to a Roth IRA, in accordance with the anticipated recharacterization.

This request for relief under section 301.9100-3 of the Regulations was submitted prior to the Service's discovering Taxpayer A's ineligibility to convert traditional IRA X to Roth IRA Y and subsequent failure to timely elect to recharacterize Roth IRA Y back to a traditional IRA. Calendar year [REDACTED] is not a "closed" tax year.

Based on the above facts and representations, you request a ruling that, pursuant to 301.9100-3 of the Regulations, Taxpayer A be granted a period not to exceed sixty days from the date of this ruling letter to recharacterize Roth IRA Y to a traditional IRA.

With respect to your request for relief under section 301.9100-3 of the Regulations, section 408A(d)(6) of the Code and section 1.408A-5 of the Income Tax Regulations (the "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 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 returns for the year of contributions.

Section 1.408A-5, Question and Answer -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 in relevant part, that an individual with adjusted gross income 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, Question and Answer -2 of the I.T. Regulations, provides, in summary, 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 a taxable year. Section 1.408A-4, Question and Answer -2, further provides, in summary, that an individual and his spouse must file a joint federal tax return to convert a traditional IRA to a Roth IRA, and that the modified adjusted gross income subject to the \$100,000 limit for the taxable year 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 Service on or after December 31, 1997. Section 301.9100-1(c) of the Regulations provides that the Commissioner of the Internal Revenue Service, in his discretion, may grant a reasonable extension of 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 of the Regulations 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 its 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 upon 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 convert traditional IRA X into Roth IRA Y since Taxpayer A's and Taxpayer B's combined modified adjusted gross income for [REDACTED] exceeded \$100,000. Taxpayers A and B timely filed their joint [REDACTED] federal income tax return. Calendar year [REDACTED] is not a "closed" tax year. Therefore, it is necessary to determine whether Taxpayer A is eligible for relief under the provisions of section 301.9100-3 of the Regulations.

Taxpayer A was ineligible to convert traditional IRA X to Roth IRA Y. When Taxpayer A discovered that he was ineligible to convert traditional IRA X to Roth IRA Y, he completed Company M's request for recharacterization form on [REDACTED] but did not mail it pending the issuance of Partnership P's final Form K-1 for 2002, which occurred in [REDACTED]. Taxpayer A represents that he mailed his notification to Company M on [REDACTED] but that Company M did not receive it until [REDACTED], one day after the recharacterization deadline for tax year [REDACTED]. Taxpayer A completed his tax return in anticipation of the recharacterization and was not aware that such had not occurred until Company M notified him in a letter dated [REDACTED] that it did not complete the recharacterization because the request was received after the deadline for tax year [REDACTED]. Upon realizing that such recharacterization had not occurred, Taxpayer A requested relief from the Service before the Service discovered Taxpayer A's ineligibility to convert traditional IRA X to Roth IRA Y and Taxpayer A's failure to timely elect to recharacterize Roth IRA Y back to a traditional IRA. The [REDACTED] tax year is not a closed year under the statute of limitations.

With respect to your request for relief, we believe that, based on the information submitted and the representations contained herein, the requirements of the sections 301.9100-1 and 301.9100-3 of the Regulations have been met, and that you have acted reasonably and in good faith with respect to making the election to recharacterize your Roth IRA Y as a traditional IRA. Specifically, the Service has concluded that you have met the requirements of clause (i) of section 301.9100-3(b)(1) of the Regulations. Therefore, you are granted an extension of 60 days from the date of the issuance of this letter ruling to so recharacterize.

This ruling assumes that the above IRAs qualify under section 408 of the Code at all relevant times.

No opinion is expressed as to the tax treatment of the transaction described herein under the provisions of any other section of either the Code or regulations, which may be applicable thereto.

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

Pursuant to a power of attorney on file with this office, a copy of this ruling letter is being sent to your authorized representative.

If you have any questions regarding this ruling, please contact

\*\*\*\*\*SE:T:EP:RA:T2.

Sincerely,

**Joyce E. Floyd**

Joyce E. Floyd, Manager  
Employee Plans Technical Group 2

Enclosures:

Deleted copy of ruling letter

Notice of Intention to Disclose Form 437