

Recharacterizing Conversions and Reconversions

Recharacterization

Recharacterize – A recharacterization is a reportable transfer of all or part of a contribution, plus earnings or loss, from a Traditional IRA to a Roth IRA, or from a Roth IRA to a Traditional IRA. A recharacterization may be used to undo a conversion, or an individual may be able to correct an excess using recharacterization if the excess is due to the individual's being ineligible for the specific type of IRA to which he or she contributed, but he or she is eligible for the other type IRA. Recharacterizations must be completed by the IRA owner's tax return due date plus extensions. If IRA owners file their taxes by their regular or extended deadline, they are granted an automatic six month extension for recharacterization to October 15.

Net income/loss attributable – Net income/loss attributable is the amount of earnings specific to an excess contribution amount being removed, or a contribution (or conversion) being recharacterized.

Reconversion – A reconversion is the conversion of assets that have been previously converted and recharacterized. Although there are restrictions as to the frequency of reconversions, the reconversion process mirrors the conversion process.

Recharacterization Procedure

The IRA Owner

1. The IRA owner irrevocably elects to treat the contribution as having been made to the second IRA rather than the first
2. The IRA owner attaches a statement when he or she files his or her taxes confirming the recharacterization for the year during which the contribution was made

The Financial Organization

1. The financial organization directly transfers the conversion amount, plus any net income/loss attributable, from the first IRA to the second IRA
2. The financial organization reports the distribution from the first IRA
 - Code R – Convert in one year, recharacterize subsequent year
 - Code N – Convert and recharacterize in same year
3. The financial organization reports the contribution into the second IRA

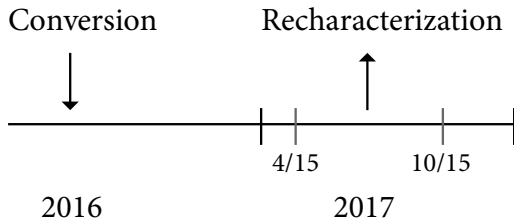
Irrevocable Recharacterization Election Requirements

1. Election must be in writing and be provided to both the distributing and receiving IRA trustee(s)/custodian(s)
2. Notification must include
 - the type and amount of the contribution that is being recharacterized;
 - the date on which the contribution was made to the first IRA;
 - the year for which the contribution was made;
 - direction to the trustee, custodian or issuer of the first IRA to directly transfer the contribution and net income attributable to the second IRA;
 - the names of the trustees, custodians or issuer of both the first and second IRA and
 - any other information needed to make the transfer.

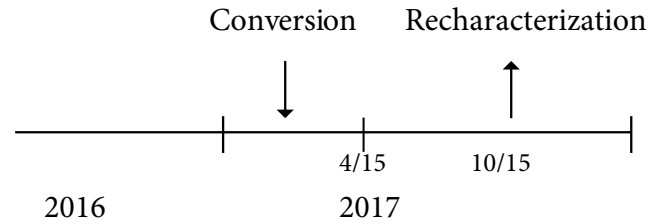
Note: After the transfer is made, the IRA owner cannot revoke the election.



Code R



Code N



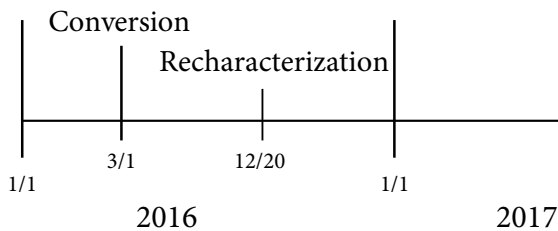
Reconvert

Assets that have been converted and recharacterized may be reconverted but not before

- January 1 following the year the amount was converted to the Roth IRA, or
- if later, 30 days after the day on which the IRA owner recharacterizes the amount.

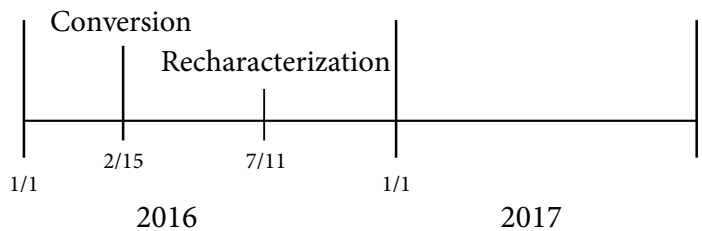
Note: Reconversions made before either of these dates are failed conversions if not timely recharacterized.

Example 1



IRA owner cannot convert until 30 days following the recharacterization.

Example 2



IRA owner cannot convert until January 1 following the conversion.

