

Reporting IRA Recharacterizations and Reconversions

Notice 2000-30

I. PURPOSE

This notice specifies a new method to be used by IRA trustees, issuers, and custodians (hereinafter referred to as “trustees”) for reporting IRA recharacterizations and reconversions occurring after 2000. The new method is similar to current reporting practices and is designed to ensure consistent reporting among trustees. This notice does not otherwise affect the reporting rules governing conversions, contributions to, or distributions from IRAs.

II. BACKGROUND

A. Recharacterizations and Reconversions

A “recharacterization” is a trustee-to-trustee transfer, made in accordance with § 408A(d)(6) of the Internal Revenue Code and the regulations thereunder, of a contribution (or a portion of a contribution), plus earnings, from one IRA (the “FIRST IRA”) to another IRA (the “SECOND IRA”). A properly recharacterized contribution is treated, for Federal tax purposes, as a contribution made to the SECOND IRA, instead of to the FIRST IRA. Recharacterizations are permitted only between different types of IRAs; for example, from a traditional IRA to a Roth IRA and vice versa. See § 1.408A-5 of the Income Tax Regulations.

A “conversion” is the transfer, by rollover or other means, of an amount in a nonRoth IRA to a Roth IRA. A “nonRoth IRA” is an individual retirement account or annuity described in § 408(a) or (b), other than a Roth IRA. Any converted amount is treated as a distribution from the nonRoth IRA and a rollover to the Roth IRA. See § 1.408A-4, Q&A-1.

A “reconversion” is a conversion from a nonRoth IRA to a Roth IRA of an amount that had previously been recharacterized as a contribution to the nonRoth IRA after having been earlier converted to a Roth IRA.

In general, a recharacterization of a contribution must be made on or before the due date (including extensions) for filing the individual's Federal income tax return for the taxable year for which the contribution was made to the FIRST IRA. (See §§ 1.408A-5, Q&A-1(b).) Section 1.408A-5, Q&A-9, sets forth special timing rules for reconversions.

B. IRA Reporting Generally

A distribution from an IRA is reported on a Form 1099-R by the trustee of the IRA from which the distribution is made. Amounts that are reported as distributions on Form 1099-R include a contribution that has been recharacterized from the FIRST IRA to the SECOND IRA. When a recharacterization occurs, the trustee of the FIRST IRA issues a Form 1099-R. The instructions to Form 1099-R provide detailed information on how the form should be completed.

A contribution to an IRA is reported on a Form 5498 by the trustee of the IRA to which the contribution is made. Contributions that are reported on Form 5498 include a contribution that has been recharacterized from the FIRST IRA to the SECOND IRA. When a recharacterization occurs, the trustee of the SECOND IRA issues a Form 5498. The instructions to Form 5498 provide detailed information on how the form should be completed.

C. Prior Guidance on Reporting Recharacterizations and Reconversions

Pursuant to §§ 408(i), 408A(d)(3)(D), and 6047 of the Code and § 1.408A-7 of the regulations, the Internal Revenue Service has previously issued guidance on the reporting of transactions involving IRAs, including guidance relating to the reporting of recharacterizations and reconversions. Notice 98-49, 1998-2 C.B. 365 (September 21, 1998), sets forth a general rule for reporting recharacterizations. Under Notice 98-49, the gross amount transferred in a recharacterization is reported by the trustee of the FIRST IRA on a Form 1099-R. That same amount is also reported by the trustee of the SECOND IRA on a Form 5498 that is separate from any Form 5498 otherwise required for the SECOND IRA.

Announcement 99-5, 1999-3 I.R.B. 16 (January 19, 1999), provides that, in lieu of the reporting method described in Notice 98-49, an alternative method of reporting may be used with respect to recharacterizations that occur in 1998 and 1999 using the same trustee. Announcement 99-106, 1999-45 I.R.B. 561 (November 8, 1999), extended the alternative method provided for in Announcement 99-5 through 2000. Announcements 99-5 and 99-106 also apply to reconversions.

III. FORMS 5498 AND 1099-R REPORTING REQUIREMENTS FOR IRA RECHARACTERIZATIONS AND RECONVERSIONS AFTER 2000

To simplify IRA administration and to enhance IRA owners' understanding of the Forms 5498 and 1099-R they receive from the financial institutions maintaining their IRAs, the Service and Treasury believe that there should be a consistent method for reporting recharacterizations and reconversions. After consideration of comments from trustees and other organizations involved in the administration of IRAs and from other interested parties, the Service and Treasury believe the following method best accommodates current industry practices and simplification of reporting these transactions.

The new reporting method generally retains the requirement of Notice 98-49 that amounts recharacterized be identified separately from other types of distributions and contributions. The new method replaces the alternative methods permitted by Announcements 99-5 and 99-106. It is effective for recharacterizations and reconversions that occur after 2000.

Each recharacterization or reconversion occurring after December 31, 2000 (including a recharacterization or reconversion of an amount contributed before January 1, 2001), whether or not using the same trustee, must be reported as provided in Forms 5498 and 1099-R and the accompanying instructions. It is anticipated that these forms and instructions will prescribe the rules set forth in A through C below.

A. Form 1099-R Reporting of Recharacterizations by the Trustee of the FIRST IRA

Gross Amount Reported. The gross amount transferred in a recharacterization (contribution plus earnings) is reported on Form 1099-R.

Prior and Current Year Recharacterizations Distinguished. Recharacterizations that occur after the year for which the contributions being recharacterized were made ("prior year recharacterizations") and recharacterizations that occur in the same year as the year for which

the contributions being recharacterized were made (“same year recharacterizations”) must be reported on separate Forms 1099-R. Prior year recharacterizations will be coded with the existing Code R in Box 7, while same year recharacterizations will be coded with a new code, N, in Box 7.

Because prior year recharacterizations and same year recharacterizations will be separately coded, these amounts may not be reported together on the same Form 1099-R. Similarly, because a recharacterization will have a different code than other reportable distributions, a recharacterization may not be reported together with another reportable distribution on the same Form 1099-R.

Combined Reporting of Similar Recharacterizations. All prior year recharacterizations from the same FIRST IRA must be reported together on a single Form 1099-R using Code R in Box 7. All same year recharacterizations from the same FIRST IRA must be reported on a single Form 1099-R using the new code in Box 7.

Example 1. (i) On December 15, 2000, Taxpayer B makes an initial contribution of \$2,000 to a traditional IRA (the FIRST IRA). On January 16, 2001, B makes another contribution to this IRA in the amount of \$1,000 for the year 2001. On February 15, 2001, B makes another contribution to this IRA, again in the amount of \$1,000 for the year 2001.

Pursuant to B’s election, all three contributions are recharacterized as contributions to a Roth IRA (the SECOND IRA) on April 2, 2001. As of April 2, 2001, the earnings attributable to the initial contribution are \$300, the earnings attributable to the second contribution are \$200, and the earnings attributable to the third contribution are \$150.

(ii) The trustee of the FIRST IRA issues B a 2001 Form 1099-R for the prior year recharacterizations of the initial contribution. The gross amount of the transfer (\$2,300) made in connection with the recharacterization of the initial contribution is shown in Box 1 and Code R is used in Box 7.

The trustee of the FIRST IRA also issues B a second 2001 Form 1099-R for the two same year recharacterizations. This Form 1099-R will show \$2,350 (the combined gross amount of the transfers made in connection with the recharacterization of the two 2001 contributions (\$1,000 + \$200 + \$1,000 + \$150)) in Box 1 and will use the new Code N for same year recharacterizations in Box 7.

B. Form 5498 Reporting of Recharacterizations by the Trustee of the SECOND IRA

Gross Amount Reported. The gross amount received in a recharacterization (contribution plus earnings) is reported on Form 5498.

Recharacterization Contributions Distinguished from Rollover Contributions.

Recharacterizations will be reported in a new box on Form 5498 titled “Recharacterized contributions” (instead of in Box 2 as provided in Notice 98–49) and the checkbox titled “Rechar.” will be eliminated.

Requirement of Separate Forms 5498 for each Recharacterization Eliminated. All recharacterized contributions received by an IRA in the same year are permitted to be totaled

and reported on one Form 5498. Alternatively, each recharacterized contribution can be reported on a separate Form 5498.

Single Form 5498 Covering All Contributions Permitted. A single Form 5498 is permitted to be used to report all contributions (including recharacterized contributions) made to an IRA in a year. Alternatively, each contribution can be reported on a separate Form 5498.

Example 2. (i) Taxpayer C has made two contributions to her traditional IRA (the FIRST IRA). The first contribution, in the amount of \$2,000, was made on November 1, 2000. The second contribution, also in the amount of \$2,000, was made on February 1, 2001, for 2001.

Pursuant to C's election, the November 1, 2000, contribution is recharacterized as a contribution to a Roth IRA (the SECOND IRA) on April 2, 2001, at which time the earnings attributable to the November 1, 2000, contribution are \$100. Then, pursuant to C's election, the February 1, 2001, contribution is recharacterized as a contribution to the SECOND IRA on December 12, 2001, at which time the earnings attributable to the February 1, 2001, contribution are \$850.

(ii) The trustee of the SECOND IRA issues C a single 2001 Form 5498 on which both recharacterizations are reported. That Form 5498 will show, in a new box, \$4,950 (\$2,000 + \$100 + \$2,000 + \$850). Alternatively, consistent with Notice 98-49, the trustee of the SECOND IRA may issue two 2001 Forms 5498, one reporting \$2,100 and one reporting \$2,850.

C. Form 1099-R and Form 5498 Reporting of Reconversions

Reconversions are reported on Forms 1099-R and 5498 in the same manner as other conversions. The alternative method described in Announcements 99-5 and 99-106 will not be available for reconversions occurring in 2001 and thereafter.

EFFECT ON OTHER DOCUMENTS

Notice 98-49 is modified.

REQUEST FOR COMMENTS

The Service and Treasury invite comments and suggestions concerning the guidance provided in this notice. Any correspondence received will be evaluated, together with the needs of the Service, to determine whether further guidance on this subject is needed.

Comments can be submitted to CC:DOM:CORP:R (Notice 2000-30), room 5226, Internal Revenue Service, POB 7604, Ben Franklin Station, Washington, DC 20044. Comments may be hand delivered between the hours of 8 a.m. and 5 p.m. to CC:DOM:CORP:R (Notice 2000-30), Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue N.W., Washington, DC. All comments will be available for public inspection and copying.

DRAFTING INFORMATION

The principal author of this notice is Roger Kuehnle of Employee Plans (Tax Exempt and Government Entities Division). For further information regarding this notice, please contact the Employee Plans' taxpayer assistance telephone service at (202) 622-6074/6075 (not toll-free) between the hours of 1:30 and 3:30 p.m. Eastern Time, Monday through Thursday.