

Part IV. Items of General Interest

Alternative Methods for Reporting 1998 and 1999 IRA Recharacterizations and Reconversions

Announcement 99-5

Purpose

This announcement provides that alternative methods of reporting 1998 and 1999 recharacterizations of IRA contributions and 1998 and 1999 reconversions will be acceptable in certain circumstances.

Background

Section 1.408A-7 of the proposed Income Tax Regulations provides that a conversion of an amount from an IRA other than a Roth IRA to a Roth IRA is a distribution from the nonRoth IRA, requiring the filing of a Form 1099-R by the trustee, custodian or issuer (hereinafter referred to as "trustee") of the nonRoth IRA.

Notice 98-49, 1998-38 I.R.B. 5 (September 21, 1998), provides that, for a recharacterization occurring in 1998, the trustee of the FIRST IRA reports the transfer using Code G on Form 1099-R and the trustee of the SECOND IRA reports the receipt of the transferred amount as a rollover contribution on Form 5498.

Notice 98-50, 1998-44 I.R.B. 10 (November 2, 1998), generally provides that more than one "reconversion" (that is, a conversion from a traditional IRA to a Roth IRA of an amount that had previously been recharacterized as a contribution to the traditional IRA after having been earlier converted to a Roth IRA) occurring on or after the effective date of the notice is an "excess reconversion." When a taxpayer has one or more excess reconversions, the taxable conversion amount (as defined in § 1.408A-8, Q&A-1(b)(7) of the proposed regulations) is based on the reconversion immediately preceding the first excess reconversion.

Announcement 98-113, 1998-51 I.R.B. 48 (December 21, 1998), provides that payers may use Code J in Box 7 on the 1998 Form 1099-R to report all distributions from Roth IRAs.

Alternative Reporting Methods

A trustee will not fail to satisfy the reporting requirements under §§ 408(i) and 6047 of the Internal Revenue Code for completing Forms 1099-R or Forms 5498 for IRAs merely because, in the event of one or more recharacterizations occurring in 1998 using the same trustee and subsequent reconversions, if any, occurring in 1998 using that same trustee, the trustee reports the results of these recharacterizations and reconversions on the appropriate forms using a reasonable alternative method in lieu of the method described in Notice 98-49, § 1.408A-7 of the proposed Income Tax Regulations and the instructions to Forms 1099-R and 5498. Similarly, a trustee will not fail to satisfy the reporting requirements described in the preceding sentence merely because, in the event of one or more recharacterizations occurring in 1999 using the same trustee and subsequent reconversions, if any, occurring in 1999 using that same trustee, the trustee reports the results of these recharacterizations and reconversions on the appropriate forms using a reasonable alternative method.

Any trustee using an alternative method must provide instructions to the IRA owner, in conjunction with account statements (or other information) the trustee provides to the IRA owner, on how to use the information provided on the forms to properly report the recharacterizations and reconversions on his or her Federal income tax return for 1998 and/or 1999, as applicable, including how to use the information to complete related forms such as Form 8606 and Form 5329.

For purposes of this announcement, whether a transaction occurs using the same trustee is determined by the trustee's Federal identification number. Thus, a transaction that occurs between trustees using different Federal identification numbers for purposes of issuing Forms 1099-R and Forms 5498 is not a transaction that occurs using the same trustee.