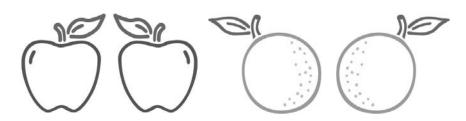


Pension Digest

ALSO IN THIS ISSUE –

IRA Comparisons, Page 2

IRA Comparisons Charts, Page 12



COMPARING THE IRAS

Since January 1, 1998, the federal income tax laws have authorized three types of IRAs—the traditional IRA, the Roth IRA, and the Education IRA. Each type of IRA has it own rules. The purpose of this article is to summarize the many (not all) rules which now apply to the different types of IRAs. This article has been written as if you are the IRA accountholder.

Start Contributions as Early as Possible

No matter which type or types of IRA you have, you will benefit by making contributions. In general, the earlier you start your contributions the more you will accumulate for your benefit and the benefit of your beneficiaries. You may well want to establish and maintain all three IRA types for yourself, and you may want to assist other family members with establishing and funding one or more of these IRAs.

The Education IRA is called an "IRA" even though the funds are to be used to pay the education expenses of your children, grandchildren, or other minors rather than provide you with assets during your retirement years. In general, the rules for Education IRAs are totally independent of the rules which apply to traditional IRAs and Roth IRAs. This is not the case for traditional IRAs and Roth IRAs since some (not all) of their rules are interrelated.

Which IRA and which type of IRA contribution is best for me?

There is no simple answer to this question. The answer will depend upon your unique factual situation. Which contribution type is best for you may well change from year to year. You will need to analyze the various tax benefits associated with each type of IRA and decide which contribution type is best for you. In some situations you may benefit more by being able to claim a deduction for your contribution to a traditional IRA, and in other situations you may benefit more by making a contribution to your Roth IRA. Or, you may be ineligible to make a Roth contribution and ineligible to make a deduct-ible contribution, making your only option to make a nondeductible contribution to your traditional IRA.

You will want to consider such factors as: (1) your tax bracket at the time of the contribution; (2) your tax bracket at the time of anticipated distributions; (3) whether or not you will need the funds during your retirement; (4) the investment return you may realize; and (5) how long the funds will be within the IRA.

Should I convert my existing traditional IRA (or some portion) to a Roth IRA?

Again, there is no simple answer to this question. At a minimum you will want to consider the following factors: (1) your tax bracket at the time of conversion; (2) your tax bracket at the time of anticipated distributions; (3) whether or not you will need the funds during your retirement; (4) the investment return you may realize; (5) how long the funds will be within the Roth IRA; (6) what amounts will be required to be distributed from the traditional IRA in future years; and (7) the likelihood Congress could choose to tax the earnings within a Roth IRA in the future.



IRA TOPIC	TRADITIONAL	ROTH	EDUCATION
What is the primary purpose for maintaining this IRA?	You may use this IRA to accumulate funds to be primarily used for your retirement and to provide for your beneficiaries after your death.	You may also use this Roth IRA to accumulate funds to be used for your retirement and to provide for your beneficiaries after your death. This Roth IRA is designed to provide funds for your beneficiaries because you are not required to take distributions at 70½.	You may use this IRA to accumulate funds to be primarily used to pay the postsecondary educational expenses of a child, grandchild or other minors.
Am I eligible to contribute to this IRA?	You can make contributions if you receive taxable compensation during the current year and you will not be age 70½ by December 31 of such year. Or, if you are married and you will not be 70½ or older by December 31 of such year and your spouse receives taxable compensation.	You can make contributions if you receive taxable compensation during the current year and you meet an income limitation. If you are single, you become ineligible when your adjusted gross income (AGI) is \$110,000 or greater. If you are married, you become ineligible when the adjusted gross income of you and your spouse is \$160,000 or greater. Note that you may be eligible even though you are age 70½ or older. You may also be eligible if you are married and your spouse receives taxable compensation and you and your spouse meet the income limitations.	You are eligible to contribute to one or more Education IRAs as long as your income is within certain limits depending upon your filing status, and the designated beneficiary of each Education IRA has not attained age 18. Unlike the traditional IRA or the Roth IRA, you most likely will be making the contribution for a child, grandchild or other minors and not for yourself.
What is the annual contribution limit?	The lesser of 100% of compensation or \$2,000. There are special rules for a spousal contribution.	The lesser of 100% of compensation or \$2,000 as reduced by any amount you contributed to your traditional IRA for the same tax year. There are special rules for a spousal contribution. In addition, the permissible contribution is phased out at certain adjusted gross income levels. See the Roth IRA contributions chart at the end.	In general, you are allowed to contribute up to \$500 per year per beneficiary. This \$500 limit is a per-beneficiary limit and not per contributor. You are eligible to make separate contributions for different beneficiaries. For example, if you have five children, you could fund or contribute \$500 to five separate Education IRA accounts for a total of \$2,500. You are not, however, permitted to contribute \$500 if your contribution, when added to contributions which others have made for the same beneficiary, would exceed \$500. And you will not be eligible to make a contribu-

state tuition program for that beneficiary.

The \$500 contribution limit

be eligible to make a contribution to an Education IRA for a certain beneficiary during any year in which contributions are made by anyone to a qualified



TRADITIONAL

ROTH

EDUCATION

What is the contribution deadline?

April 15th of following year (no extensions).

April 15th of following year (no extensions).

your modified adjusted gross income (AGI) exceeds certain limits. See the Education IRA contributions chart at the end.

is decreased and phased out if

Is a special tax benefit bestowed upon the contributions? Or, may I claim a tax deduction for the contribution? The answer is "yes" if you are not an active participant in an employer-sponsored pension plan. You may choose to have the contribution be deductible or not. The answer is also "yes" if you are an active participant but your adjusted gross income is sufficiently low.

If you are an active participant in a pension plan and your income is too high, then you may lose some or all of the ability to claim a tax deduction.

No. No one is eligible to claim a deduction for a contribution to this IRA. The contribution amount will not be subject to taxation when distributed.

Note: being an active participant in an employer-sponsored plan does not affect one's ability to contribute to the Roth IRA.

December 31 of the current year.

No. No one is eligible to claim a deduction for a contribution to this IRA. This contribution amount will not be subject to taxation when distributed.

Is a special tax benefit bestowed upon the earnings of this IRA?

Yes. The earnings will not be taxed until distributed.

Yes. The earnings will never be taxed if certain rules are met. If your contributions have met a five-year holding requirement and the distribution to you is made (1) after you have attained age 59½, (2) after you have become disabled, (3) because of a first-time home purchase, or (4) to your beneficiary after your death, then there will be no requirement by you or your beneficiary to include any portion of the distribution in income. Distributions which meet the above qualifications are called "qualified distributions."

If these requirements are not met, then the earnings will be taxed.

A distribution which is not a "qualified distribution" is a nonqualified distribution and will be partially taxed. There can be many reasons why a distribution is a nonqualified distribution. First, any distribution which does not satisfy the five-year rule will be partially taxed. Second, any distribution which has satisfied the five-year rule but is made to you before you have

Yes. The earnings will never be taxed if certain rules are met. If money is withdrawn from the Education IRA and used to pay qualifying education expense, your designated beneficiary will not be required to pay income tax on the amount withdrawn. Another way to make this statement is: distributions from an Education IRA will be excluded from income tax (i.e. not subject to tax) to the extent that the distributions do not exceed the qualified higher education expenses incurred by the beneficiary of the account in the year of the distribution.

The amount of the educational expenses for which a distribution from an Education IRA can be used and not be subject to the tax, must be reduced by the amount of any qualified scholarship, educational assistance allowance or payment that is excludable from the beneficiary's gross income.

A distribution which either exceeds the amount of qualified higher education expenses or which is not used for qualified education expenses will be partially taxable.



IRA TOPIC	TRADITIONAL	ROTH	EDUCATION
		attained age 59½ will be partially taxed unless you are disabled or unless the funds were used for a first-time home purchase.	The earnings with respect to an Education IRA may or may not be taxable when distributed. A distribution is composed of both contributions and earnings. A portion of the earnings will be taxable if either the distribution is not used for qualifying educational purposes or if such amount is more than the total amount of incurred higher education expenses. The law mandates the use of a pro rata allocation formula.
What are the spousal eligibility and contribution rules?	You will be eligible to make a spousal IRA contribution for yourself if the following rules are satisfied: • Each contributing spouse must have his/her own IRA. • You must be married as of the end of the tax year (i.e. December 31). • You must be under age 70½ as of December 31. • You must file a joint income tax return. • You must have compensation includible in gross income which is less than that of your spouse. Your annual IRA contribution will be limited to the lesser of (1) \$2,000; or (2) the sum of your compensation which is includible in gross income for such year plus the compensation of your spouse as reduced by your spouse's contribution to his or her own IRA and Roth IRA. In addition, when your contribution is aggregated with the contribution of your spouse, the maximum permissible amount for both IRAs will be the lesser of \$4,000 or 100% of your combined incomes.	You (or your spouse) will be eligible to make a spousal contribution to a Roth IRA if the following rules are satisfied: You or your spouse must each have your own Roth IRA. You must be married as of the end of the tax year (i.e. December 31). You must file a joint income tax return. You must have compensation includible in gross income which is less than that of your spouse. Your annual Roth IRA contribution will be limited to the lesser of (1) \$2,000; or (2) the sum of your compensation which is includible in gross income for such year plus the compensation of your spouse as reduced by your spouse's contribution to his or her own traditional IRA and Roth IRA. In addition, when your Roth IRA contribution is aggregated with your traditional IRA contributions of your spouse, the maximum permissible amount for all IRAs will be the lesser of \$4,000 or 100% of your combined incomes.	Not applicable.
What are the different types of IRA contributions which can be made to this type of IRA?	You can make either a regular, spousal, rollover, transfer, SEP, or recharacterized contribution.	You can make either a regular, spousal, rollover, transfer, or recharacterized, or conversion contribution.	You can make either a regular, rollover or transfer contribution.
			Continued on page 5



What are the different types of IRA contributions which cannot be made to this type of IRA?

Distributions from what types of plans may be transferred <u>into</u> this type of IRA?

Distributions from what types of plans may be rolled over into this type of IRA?

TRADITIONAL

You cannot make an Education, Roth, or SIMPLE contribution.

Distributions from another IRA or SEP-IRA may be transferred to a traditional IRA and in some cases from a SIMPLE-IRA.

Certain distributions from qualified plans, a section 403(b) plan or another traditional IRA, SEP IRA, or SIMPLE-IRA may be rolled over into this IRA.

Note: funds may not be rolled over from a Roth IRA to a traditional IRA or from a section 457 plan to a traditional IRA.

How are distributions from the IRA taxed?

IRA distributions must be included in your adjusted gross income in the year received. There are a number of exceptions—rollovers, timely withdrawal of excess contributions, and the pro rata return of nondeductible contributions.

ROTH

You cannot make an Education, traditional, SIMPLE or SEP contribution.

Transfers may only be made from one Roth IRA to another Roth IRA.

Only distributions from a traditional IRA or another Roth IRA may be rolled over into this Roth IRA. Distributions from qualified plans or section 403(b) plans are not eligible to be rolled over.

Note: only certain individuals may roll over or convert their traditional IRA to a Roth IRA.

In order to roll over traditional IRA funds to a Roth IRA, you must have adjusted gross income of \$100,000 or less in the year of the rollover, and if married, you must file a joint tax return. You must complete the rollover contribution within 60 days of the day you received it. A special rule provides that the rollover from a traditional IRA does not count towards the "one rollover per 12 month" rule.

Special warning. The IRS has stated that they construe the Code section 408A(c)(3)(B) requirement that the taxpayer's adjusted gross income must not exceed \$100,000 to mean that the combined adjusted gross income of a person who is married and who files a joint return must not exceed \$100,000.

As discussed above, only nonqualified distributions will be taxable, and then only to the extent of the earnings. Qualified distributions are not taxed.

EDUCATION

You cannot make a traditional, Roth, SIMPLE or SEP contribution.

Transfers may only be made from one Education IRA to another Education IRA.

distribution from Education IRA will not be taxable if it is paid to "another" Education IRA either for the same beneficiary or a member of his or her family. If rolled over to a family member, that person must be under 30 years of age. The recontribution must occur within 60 days after the day it is received. A distribution from an Education IRA is eligible to be rolled over only if no prior distribution had been rolled over within the preceding twelve months as calculated from this distribution.

Family members of the designated beneficiary include the spouse of the designated beneficiary. Family members also include a child, grandchild, sibling, parent, niece or nephew, son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the designated beneficiary, and the spouse of any such individual.

As discussed above, no portion of the distribution will be taxed if certain rules are satisfied.



When will the 10% additional tax be assessed?

TRADITIONAL

You will have to pay a 10% additional tax if you are not yet age 59½ unless a special exception applies.

The exceptions are: disability, death, substantially equal periodic payment, certain medical bills, certain health insurance premiums, certain first-time home purchase expenses and certain education expenses.

Are mandatory distributions required to be made for the year an accountholder attains age 70½?

Yes. A distribution schedule must be established to distribute a "minimum" amount to the IRA accountholder. Otherwise, a 50% excise tax will be owing. Fairly complicated rules apply for determining this annual required minimum distribution amount.

Because such distributions are mandated, the IRA account balance will begin to decrease once the life-expectancy factor is smaller than the earnings factor.

Are mandatory distributions required to be made to beneficiaries after the IRA accountholder dies?

Yes. Each beneficiary required to comply with rules which mandate distributions of a minimum amount within certain time deadlines. Otherwise a 50% excise tax will be owing. The choices which a beneficiary has depends upon whether the beneficiary is the deceased accountholder's spouse or not and whether the accountholder died on or before his or her required beginning date. In general, if the accountholder dies before his or her required beginning date, then any beneficiary has a choice between the five-year rule and the life-distribution rule. If the accountholder dies on or after his or her required beginning date, then a beneficiary is required to continue the distribution schedule which the accountholder had established, or he or she may accelerate this schedule by taking more. In addition, a spouse

ROTH

The same exceptions to the 10% tax apply to distributions from a Roth IRA as from a traditional IRA. Therefore, if you are not age 591/2 (and none of the other exceptions apply at the time you withdraw funds from your Roth IRA), then you will be liable to pay the 10% additional tax on that portion of the distribution which is taxable. You will not pay the 10% additional tax when your contributions or basis is returned to you unless you converted funds and then withdraw such funds before you have met a five year requirement.

No. Because distributions are not required to be made to a Roth accountholder, the balance of this IRA can continue to grow or accumulate for the beneficiary(ies).

Yes. Each beneficiary is required to comply with rules which mandate distributions of a minimum amount within certain time deadlines. Otherwise a 50% excise tax will be owing. The choices which a beneficiary has are somewhat different than those which apply to a traditional IRA. If the beneficiary is the spouse of the deceased accountholder and is the sole beneficiary, then the deceased spouse's IRA automatically becomes the IRA of the surviving spouse (i.e. there is no election). In any other situation, each beneficiary will be able to elect between the five-year rule and the life-distribution rule.

EDUCATION

If a distribution is not used for education expenses (and none of the exceptions apply at the time funds are withdrawn from the account, i.e. death, disability, receipt of scholarship, or removal of an excess contribution) then the designated beneficiary will be liable to pay the 10% additional tax on that portion of the distribution that is taxable. The 10% additional tax will not be owed on the portion of the distribution that consists of the basis or contributions to the account.

Not applicable.

Yes. A beneficiary can be designated to receive the Education IRA upon the death of the designated beneficiary. If the inheriting beneficiary is the spouse or a family member of the designated beneficiary, upon the death of designated beneficiary, the Education IRA automatically becomes the Education IRA of that inheriting beneficiary. This transfer will not be subject to income tax. If, however, this inheriting beneficiary is over age 30 at the time of death, the funds will then have to be distributed to them within 30 days, and the earnings portion will be taxable income in that year. If the inheriting beneficiary is not a family member of the designated beneficiary, the funds must be distributed to that person within 30 days of the date of death, and



TRADITIONAL

beneficiary may elect to treat the decedent's IRA as his or her own whether the accountholder died before or after his or her required beginning date.

ROTH

EDUCATION

the earnings portion will be included in the income of the inheriting beneficiary. If there is no beneficiary named, the rule is that the balance in the Education IRA must be distributed to the estate of the designated beneficiary within 30 days of the date of the designated beneficiary's death. The earnings portion of the distributed amount will be included in the income of the deceased beneficiary on his or her final income tax return and is includible in the estate of the designated beneficiary for estate tax purposes.

Can I convert this IRA to a different type of IRA?

Yes. You may convert this traditional IRA to a Roth IRA, but you cannot convert your traditional IRA to an Education IRA. The following rules must be met to convert to a Roth IRA.

There are three ways to accomplish a conversion from a traditional IRA to a Roth IRA.

Method #1. An amount distributed from a traditional IRA is contributed (i.e. rolled over) to a Roth IRA within 60 days after the day the funds were received.

Method #2. An amount in a traditional IRA is transferred to a Roth IRA maintained by the same custodian or trustee.

Method #3. An amount in a traditional IRA is transferred in a custodian/trustee-to-custodian/trustee transfer from the custodian/trustee of the traditional IRA to the custodian/trustee of the Roth IRA.

All three methods are reportable transactions and will be reported to the IRS.

Only certain people qualify for such a conversion or rollover. This situation presents a new and unique meaning of "rollover" and "transfer." Normally, there is no taxation when a rollover or transfer occurs. This is not the case with this type of rollover or transfer. You may find it advantageous to incur the tax consequences of a present distribution in order to

No. You may not convert your Roth IRA to a traditional IRA or to an Education IRA.

No. You may not convert your Education IRA to either a traditional IRA or a Roth IRA.



TRADITIONAL

qualify to earn the right to have no taxation when the earnings are ultimately distributed from the Roth IRA.

In order to roll over traditional IRA funds to a Roth IRA, you must have adjusted gross income of \$100,000 or less in the year of the rollover, and if married, you must file a joint tax return. Special warning. The IRS has stated that they construe the Code section 408A(c)(3)(B) requirement that the taxpayer's adjusted gross income must not exceed \$100,000 to mean that the combined adjusted gross income of persons who are married and who file a joint return must not exceed \$100,000. As discussed previously, for purposes of the \$100,000 MAGI limit, the amount otherwise includable in income because of converting funds from a traditional IRA into a Roth IRA is not included. If you are married, but you have lived apart from your spouse for the entire taxable year, then you may treat yourself as not married for purposes of this limit, file a separate return and be subject to the \$100,000 limit on your own MAGI. You must complete the rollover contribution within 60 days after the day you received it. A special rule provides that the rollover from a traditional IRA does not count towards the "one rollover per 12-month" rule.

Can I recharacterize this type of IRA contribution to a different type of IRA contribution?

Yes. You may recharacterize a contribution to a traditional IRA to be a contribution to a Roth IRA, but you cannot recharacterize a traditional IRA contribution to be an Education IRA contribution. The following rules must be met to recharacterize a contribution.

The law now permits you to elect to treat a contribution made to a Roth IRA or traditional IRA (i.e. the First IRA) as made to the other type of IRA (i.e. the Second IRA). This can be accomplished by means of a trustee-to-trustee transfer or it

ROTH

EDUCATION

Yes. you may recharacterize a contribution to a Roth IRA to be a contribution to a traditional IRA, but you cannot recharacterize a Roth IRA contribution to be an Education IRA contribution. The following rules must be met to recharacterize a contribution.

The law now permits you to elect to treat a contribution made to a Roth IRA or traditional IRA (i.e. the First IRA) as made to the other type of IRA (i.e. the Second IRA). This can be accomplished by means of a

No. You may not recharacterize a contribution to an Education IRA to be either a contribution to a traditional IRA or to a Roth IRA.



TRADITIONAL RO

can be done by an internal transfer with the same trustee.

The concept is – the contribution as made to the First IRA which is being recharacterized is treated on your federal income tax return as having been originally contributed to the Second IRA on the same date and (in the case of regular contribution) for the same taxable year that the contribution was made to the First IRA. The income is considered earned by the Second IRA. A recharacterized contribution is not treated as a rollover for purposes of the one-rollover-peryear limitation.

This election can generally be made only if accomplished on or before the due date (including extensions) for filing your Federal income tax return for the taxable year for which the contribution was made to the First IRA. However, if you timely file your return without making the transfer, you may still make the transfer within six months of the due date of your return (normally October 15), excluding extensions. For this purpose, an actual distribution from a traditional IRA late in a calendar year which is then rolled over to a Roth IRA (conversion method #1) in the following calendar year is treated as being contributed in the earlier calendar year.

An election to recharacterize a contribution cannot be revoked after the transfer.

In order to have a qualifying recharacterization, the net income attributable to the contribution being recharacterized must be transferred to the Second IRA. The method used to calculate the net income is the method used to calculate the earnings associated with an excess contribution to a traditional IRA.

You cannot recharacterize employer contributions to a SIMPLE-IRA or a SEP IRA as contributions to another type of IRA.

You cannot recharacterize a contribution to the First IRA if

ROTH

trustee-to-trustee transfer or it can be done by an internal transfer with the same trustee.

The concept is – the contribution as made to the First IRA which is being recharacterized is treated on your federal income tax return as having been originally contributed to the Second IRA on the same date and (in the case of regular contribution) for the same taxable year that the contribution was made to the First IRA. The income is considered earned by the Second IRA. A recharacterized contribution is not treated as a rollover for purposes of the one-rollover-per-year limitation.

This election can be made only if accomplished on or before the due date (including extensions) for filing your Federal income tax return for the taxable year for which the contribution was made to the First IRA. However, if you timely file your return without making the transfer, you may still make the transfer within six months of the due date of your return (normally October 15), excluding extensions. For this purpose, an actual distribution from a Roth IRA late in a calendar year which is then rolled over to a traditional IRA (conversion method #1) in the following calendar year is treated as being contributed in the earlier calendar year.

An election to recharacterize a contribution cannot be revoked after the transfer.

In order to have a qualifying recharacterization, the net income attributable to the contribution being recharacterized must be transferred to the Second IRA. The method used to calculate the net income is the method used to calculate the earnings associated with an excess contribution to a traditional IRA.

You cannot recharacterize employer contributions to a SIMPLE-IRA or a SEP IRA as contributions to another type of IRA.

You cannot recharacterize a

EDUCATION



TRADITIONAL

it was a tax-free contribution (i.e. a rollover or a transfer).

The fact that a rollover or transfer (i.e. a tax-free transfer) has occurred from the First IRA to a subsequent IRA does not mean that the IRA contributor cannot recharacterize the initial contribution as long as the other rules are met. The subsequent IRA is deemed to be the first IRA for these purposes. The rollover or transfer is ignored and the recharacterization is permissible.

In order to make an election to recharacterize a contribution, you must do the following. You must notify both the custodian/ trustee of the First IRA and the Second IRA that you have elected to treat the contribution as having been made to the Second IRA, instead of the First IRA for Federal income tax purposes. This notification must be furnished on the date of the transfer (i.e. simultaneously) or before the date of the transfer. The notification must also include the following information:

- 1. Type and amount of the contribution to the First IRA that is to be recharacterized;
- 2. The date on which the initial contribution was made;
- 3. A direction to the custodian or trustee of the First IRA to transfer in a custodian/trustee-to-custodian/trustee transfer, the amount of the contribution plus the allocable net income to the custodian/trustee of the Second IRA;
- 4. The name of the first trustee and the second trustee; and
- 5. Any additional information needed to make the transfer.

Can I reconvert this IRA?

Yes, you may reconvert this traditional IRA to a Roth IRA if you meet certain rules.

A "reconversion" arises in the following situation. You convert an amount from a traditional IRA to a Roth IRA, you then recharacterize it from a Roth IRA to a traditional IRA and you then wish to convert it

ROTH

contribution to the First IRA if it was a tax-free contribution (i.e. a rollover or a transfer).

The fact that a rollover or transfer (i.e. a tax-free transfer) has occurred from the First IRA to a subsequent IRA does not mean that the IRA contributor cannot recharacterize the initial contribution as long as the other rules are met. The subsequent IRA is deemed to be the first IRA for these purposes. The rollover or transfer is ignored and the recharacterization is permissible.

In order to make an election to recharacterize a contribution. you must do the following. You must notify both the custodian/ trustee of the First IRA and the Second IRA that you have elected to treat the contribution as having been made to the Second IRA, instead of the First IRA for Federal income tax purposes. This notification must be furnished on the date of the transfer (i.e. simultaneously) or before the date of the transfer. The notification must also include the following information:

- 1. Type and amount of the contribution to the First IRA that is to be recharacterized;
- 2. The date on which the initial contribution was made;
- 3. A direction to the custodian or trustee of the First IRA to transfer in a custodian/trustee-to-custodian/trustee transfer, the amount of the contribution plus the allocable net income to the custodian/trustee of the Second IRA:
- 4. The name of the first trustee and the second trustee; and
- 5. Any additional information needed to make the transfer.

No. You may not reconvert your Roth IRA to a traditional IRA or an Education IRA.

EDUCATION

No. You may not reconvert your Education IRA to either a traditional IRA or a Roth IRA.



TRADITIONAL RO

ROTH

EDUCATION

again from a traditional IRA to a Roth IRA. An "excess reconversion" is a reconversion which does not comply with the rules. A conversion contribution is one which has not been previously converted.

Revised reconversion rules for year 2000 and onward. A reconversion taking place after December 31, 1999, is permissible only if it occurs after the beginning of the next taxable year (generally this is after December 31 of the year in which the conversion occurred) or, if later, the end of the 30-day period beginning on the day on which the IRA owner transfers the amount from the Roth IRA back to a traditional IRA by means of a recharacterization (regardless of whether the recharacterization occurs the same year as the conversion or the following year). The following example illustrates the new rule.

Example #1. Joni Dow converted \$40,000 of her \$70,000 traditional IRA on February 3, 2000. On August 10, 2000, she recharacterizes this conversion contribution. She is not eligible to reconvert this amount until January 1, 2001.

A "failed conversion" is a term which applies for the year 2000 and subsequent years. A "failed conversion" is a reconversion which is made before the above waiting period rules permit. That is, the reconversion occurs before the later of the beginning of the next taxable year after the conversion or the end of the 30-day period that begins on the day of the recharacterization of the conversion. A failed conversion means there has been a distribution from the traditional IRA and there has been a regular contribution to a Roth IRA. Most likely there is an excess contribution that will need to be corrected either by withdrawal or by recharacterization. There are two types of failed conversions - those which will be considered to be a conversion so that they count against the reconversion limit (i.e. the determination of when



TRADITIONAL

an IRA owner may make a reconversion) and those which will not count against the reconversion limit. A failed conversion which counts against the reconversion limit occurs when the statutory requirements of less than \$100,000 of income or the filing of a joint income tax return have not been satisfied.

ROTH

EDUCATION

Is there a chart that summarizes the contribution rules for 2000?

Amount of Modified AGI

Single

Below \$32,001 Entitled to full deduction
\$32,001- \$41,999.99 Entitled to prorated deduction amount – use special formula*

\$42,000 or over No deduction permissible

Married - joint return,

both are covered Below \$52,001

\$52,001 - \$61,999.99 Entitled to prorated deduction amount – use special formula*

\$62,000 or Over No deduction permissible

Married - joint return, but only you are covered

Below \$52,001 Fully Deductible
\$52,001- \$61,999 Entitled to prorated deduction
amount – use special formula*

\$62,000 or over No deduction per-

missible

Entitled to full

Married - joint return,

but only your spouse is covered

Below \$150,001 Fully Deductible \$150,001-\$159,999 Entitled to prorated deduction amount – use spe-

cial formula* No deduction permissible

Married Filing Separately

\$160,000 or over

Below \$10,000 Entitled to prorated deduction

> amount – use special formula*

\$10,000 or Over No deduction permissible

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of the applicable base amount divided by \$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest \$10.00.

Amount of AGI and Filing Status

Single, Head of Household or Qualifying Widow(er)

Below \$95,000 Entitled to full contribution amount

\$95,000-\$109,999 Entitled to prorated contribution amount – use special formula*

\$110,000 or over No contribution

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$95,000/\$15,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest \$10.00.

permissIble

Married Filing Jointly

Below \$150,000 Entitled to full contribution amount.

\$150,000-159,999 Entitled to prorated contribution amount – use special formula.*

\$160,000 or over No contribution permissible.

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$150,000/\$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest \$10,00.

Married Filing Separate Returns

\$0-\$9,999 Entitled to prorated contribution amount – use special formula*
\$10,000 or Over No contribution permissible

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$0/\$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest \$10.00.

Amount of AGI and Filing Status

All Contributors other than "Married

Filing Jointly"

\$110,000 or over

Below \$95,000 Entitled to full contribution amount of

\$500*

\$95,000-\$109,999 Entitled to prorated

contribution amount – use special formula** No contribution permissible

Entitled to full con-

*Your contribution and the contribution of any other contributor for the same beneficiary, when added together, cannot exceed

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$95,000/\$15,000. This will give you a ratio that determines the amount you cannot contribute.

Married Filing Jointly

Below \$150,000

tribution amount of \$500*

\$150,000-159,999 Entitled to prorated contribution amount – use special formula**

\$160,000 or over No contribution permissible.

*Your contribution and the contribution of any other contributor for the same beneficiary, when added together, cannot exceed

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$150,000/\$10,000. This will give you a ratio that determines the amount you cannot contribute.