

Take-Away: While a recharacterization of a Roth IRA, back to a traditional IRA is no longer possible, an IRA owner is still able, within a narrow time frame, to change the nature of their contribution from traditional to Roth, or just the opposite.

Background: From prior missives we know that an individual can no longer *recharacterize* or convert their Roth IRA to a traditional IRA relying on hindsight. That opportunity was eliminated in the 2017 Tax Act. Now, once a Roth IRA conversion is completed, it is permanent. That said, IRA contributions can still be converted, or *switched*.

Switching Contributions is Still Permitted: However, it is still possible for an individual to *reverse* a Roth IRA contribution if it is done for the same tax year. That means a Roth IRA contribution, if timely made, can be converted, or *switched*, to a traditional IRA. Similarly, an individual's contributions to a traditional IRA, if timely made, can be converted, or *switched*, to a Roth IRA, if their income limit permits a Roth IRA contribution. The individual's contribution to either IRA must be made by the individual's tax filing due date; no extensions apply to this IRA contribution deadline date. Yet if an individual wants to convert their contribution from one type of IRA to the other [traditional to Roth; Roth to traditional], that individual will have an extension of time in which to make the *switch*. The *switch* must be completed by the individual's tax-filing due date, *plus extensions*, which is usually six months if the tax return is filed by the due date.

Switch Deadline: The *switch* in IRA contributions must be completed by the individual's tax-filing due date, *plus extensions*. When the individual files his/her tax return by the tax-filing due date, he/she receives an automatic six-month extension to *switch* his/her IRA

contribution. This sets to *switch* deadline to sometime in mid-October.

Reasons for a *Switch*: Some of the reasons why an individual may want to *switch* the nature of their IRA contribution include: (i) the individual's annual compensation was too high, e.g., \$153,000, to permit a contribution to a Roth IRA, which must be 'undone'; (ii) their compensation was too high to permit a full Roth IRA contribution, but a partial Roth contribution is still permissible, e.g., the individual's compensation was more than \$138,000 but less than \$153,000; (iii) the individual's income was less than \$138,000, which allows a full traditional IRA contribution to be *switched* to a Roth IRA contribution; and (iv) if their income level permits, their *switch* can take place simply because the individual prefers one type of IRA contribution over the other.

Net Income Attributable: If the individual plans to *switch* the nature of their IRA contribution before mid-October (6 months after their tax return due date) the *net income attributable* (NIA) must be included when the *switch* occurs. Note, too, that NIA can be both earnings and losses on the contribution before the *switch* occurs.

Example: Tina made a traditional IRA contribution of \$6,500 in May, 2023. In March, 2024, Tina would like to *switch* her IRA contribution and make it a Roth IRA contribution. Since Tina's earned income for 2023 was \$128,000, Tina is eligible to make a Roth IRA contribution for 2023. Before the IRA *switch*, which must be made before October 15, 2024, Tina's initial \$6,500 contribution enjoyed earnings of \$400 (NIA.) The entire \$6,900 [Tina's \$6,500 contribution + \$400 NIA] held in Tina's traditional IRA must be recharacterized or *switched* to Tina's Roth IRA as her 2023 Roth contribution. Note, too, that Tina could engage in a partial *switch* of some of her initial traditional IRA contribution to a Roth IRA contribution for 2023.

Implementing the *Switch*: The IRA custodian will have been notified of the *switch*. Most IRA custodians have forms that are used to implement the recharacterization-*switch* of the contribution. Usually, the *switch* is

done in-kind to avoid liquidating securities held in the IRA. Then the IRA owner must notify his/her tax return preparer about the *switch*, if it occurs after the tax-filing due date, to file an amended tax return, e.g., if originally reported as a traditional IRA contribution, the individual's tax return will have to be amended to remove the tax deduction associated with the contribution to a traditional IRA.

Conclusion: Recharacterizing a Roth IRA as a traditional IRA is no longer possible. But it is still possible to change an IRA contribution from traditional to Roth, or just the opposite, by making a *switch* in the contributions no later than the October deadline. This ability to change the nature of the IRA contribution is a big help if an individual contributes to a Roth IRA and then later discovers that he/she was ineligible to make that Roth contribution, exposing themselves to an excise tax for an excess IRA contribution.