



RECHARACTERIZING AN IRA/ROTH CONTRIBUTION IN 5 EASY STEPS

What is a recharacterization?

In the simplest of terms, a recharacterization is an “undo.” It treats an IRA contribution as if it were made as a Roth contribution and vice versa.

- 1. Meet the deadline.** A recharacterization must be completed by October 15 of the year after the year for which the contribution was made. That means that a January 10 contribution for the prior year must be recharacterized by October 15 of the current year, but a January 10 contribution made for the current year can be recharacterized through October 15 of the following year. If you miss the October 15 deadline, the only way to get an extension is to go for a private letter ruling from the IRS.
- 2. Make a trustee-to-trustee transfer back to the receiving account.** A recharacterization must be made via a trustee-to-trustee transfer. It cannot be done using a 60-day rollover.
- 3. Know the difference between the amount recharacterized and the total funds transferred to the receiving account.** The recharacterized amount is the total dollar amount of the initial contribution you wish to undo. But, total funds transferred must include the earnings (or losses) attributed to the recharacterized amount. Knowing the difference between these two values will help make sure that the recharacterization is properly reported on your tax return.
- 4. Find out your custodian’s policies.** Under the tax code, you are allowed to recharacterize all or just a portion of a contribution. Your custodian, however, may not be as flexible. This is particularly common with annuities or other contractual investments. In other cases, you may be restricted by account minimums that must be maintained.
- 5. Get your money back!** If you recharacterize a Roth contribution to an IRA after you have filed your tax return(s) for the year of contribution, you will need to file an amended return(s) so the IRS and your state know that you are no longer responsible for tax on the contribution. If you’ve already paid all or a portion of the tax, you’ll get those amounts back... plus interest!