Internal Revenue Service

Department of the Treasury

Washington, DC 20224 200130056

UICs: 408.00-00
408.03-00

Contact Person:

Telephone Number:

In Reference to:

Date: T:EP:RA:T3

MAY 3 2001

LEGEND:

Taxpayer A:

Taxpayer B:

State C:

Date 1:

Date 2:

Date 3:

IRA X:

Trust Y:

Company W:

Dear Mr. :

This is in response to the letter submitted on your behalf by your authorized representative, in which you, through your authorized representative, request several letter rulings under section 408(d)(3) of the Internal Revenue Code. The following facts and representations support your ruling request.

Taxpayer A, whose date of birth was Date 1, died on Date 2, 2000 prior to attaining age 70 ½ while a resident of State C. Taxpayer A was survived by her spouse, Taxpayer B. At her death, Taxpayer A maintained an individual retirement arrangement (IRA), IRA X, with Company W. Your authorized representative asserts that IRA X met the requirements of Code section 408(a).

Prior to her death, Taxpayer A named a trust, Trust Y, which was created on Date 3, as the beneficiary of her IRA X. Under the terms of Trust Y, Taxpayer B became the sole trustee of Trust Y upon Taxpayer A's death. Additionally, pursuant to the terms of Trust Y, Taxpayer B, as trustee of Trust Y, is required to distribute the Trust Y estate

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outright and free of trust to Taxpayer B, if Taxpayer B was to survive Taxpayer A. As noted above, Taxpayer B survived Taxpayer A.

Your authorized representative has asserted on your behalf that, pursuant to the Statutes of State C, an IRA is not subject to the expenses and claims of creditors of an estate. Furthermore, Trust Y bore no estate taxes, claims or administrative expenses arising out of the death of Taxpayer A.

Taxpayer B, as sole trustee of Trust Y, intends to withdraw all amounts standing under IRA X. Pursuant to the terms of Trust Y, Taxpayer B, as trustee, will then pay said amounts to Taxpayer B. Taxpayer B will then roll over said IRA X assets into an IRA set up and maintained in the name of Taxpayer B. Such rollover will occur no later than the 60th date following the date on which said amounts are distributed from IRA X to Taxpayer B as trustee of Trust Y.

Based on the above facts and representations, you, through your authorized representative, request the following letter rulings:

1. That Taxpayer B will be treated as the payee or distributee of IRA X for purposes of Code section 408(d)(3);

2. that IRA X will not be treated as an inherited IRA within the meaning of Code section 408(d) with respect to Taxpayer B;

3. that Taxpayer B is eligible to roll over the distribution from IRA X into an IRA set up and maintained in his name pursuant to Code section 408(d)(3)(A)(i) as long as the rollover of such distribution occurs no later than the 60th day following the day said IRA X proceeds are distributed from said IRA X; and

4. that Taxpayer B will not be required to include in his gross income for federal income tax purposes for calendar year 2001, the year in which said IRA X distribution will occur and the year in which said rollover will be made, the amounts distributed from said IRA X and timely rolled over into an IRA set up and maintained in Taxpayer B's name.

With respect to your ruling requests, Code section 408(d)(1) provides that, except as otherwise provided in this subsection, any amount paid or distributed out of an individual retirement plan shall be included in gross income by the payee or distributee, as the case may be, in the manner provided under section 72.

Code section 408(d)(3) provides that section 408(d)(1) does not apply to a rollover contribution if such contribution satisfies the requirements of sections 408(d)(3)(A) and (d)(3)(B).

Code section 408(d)(3)(A)(i) provides that section 408(d)(1) does not apply to any amount paid or distributed out of an IRA to the individual for whose benefit the account is maintained if the entire amount received (including money and any other property) is paid into an IRA (other than an endowment contract) for the benefit of such individual not later than the 60th day after the day on which he receives the payment or distribution.

Code section 408(d)(3)(C)(i) provides, in pertinent part, that, in the case of an inherited IRA, section 408(d)(3) shall not apply to any amount received by an individual from such account (and no amount transferred from such account to another IRA shall be excluded from income by reason of such transfer), and such inherited account shall not be treated as an IRA for purposes of determining whether any other amount is a rollover contribution.

Code section 408(d)(3)(C)(ii) provides that an IRA shall be treated as inherited if the individual for whose benefit the account is maintained acquired such account by reason of the death of another individual, and such individual was not the surviving spouse of such other individual. Thus, pursuant to Code section 408(d) (3)(C)(ii), a surviving spouse who acquires IRA proceeds from and by reason of the death of her husband, may elect to treat those IRA proceeds as her own and roll them over into her own IRA.

Section 1.408-8 of the Proposed Income Tax Regulations, Q&A A-4, provides that a surviving spouse is the only individual who may elect to treat a beneficiary's interest in an IRA as the beneficiary's own account. If a surviving spouse makes such an election, the spouse's interest in the account would then be subject to the distribution requirements of section 401(a)(9)(A) rather than those of section 401(a)(9)(B). Q&A A-4 further provides, in pertinent part, that an election will be considered to have been made by a surviving spouse if either of the following occurs: (1) any required amounts in the account (including any amounts that have been rolled over or transferred, in accordance with the requirements of section 408(d)(3)(A)(i), into an IRA for the benefit of such surviving spouse) have not been distributed within the appropriate time period applicable to the decedent under section 401(a)(9)(B), or (2) any additional amounts are contributed to the account (or to the account or annuity to which the surviving spouse has rolled such amounts over, as described in (1) above) which are subject, or deemed to be subject, to the distribution requirements of section 401(a)(9)(A). The result of such an election is that the surviving spouse shall then be considered the individual for whose benefit the trust is maintained.

Q&A A-4 of section 1.408-8 of the proposed regulations provides that a surviving spouse may elect to treat an IRA of her deceased spouse as her own. Q&A A-4 lists actions by which a surviving spouse makes said election. However, Q&A A-4 does not provide the exclusive methods by which a surviving spouse so elects.

Generally, if the proceeds of a decedent's IRA are payable to a trust, and are paid to the trustee of the trust who then pays them to the decedent's surviving spouse as beneficiary of the trust, said surviving spouse shall be treated as having received the IRA proceeds from the trust and not from the decedent. Accordingly, such surviving spouse, generally, shall not be eligible to roll over (or have transferred) said distributed IRA proceeds into his own IRA.

However, the general rule will not apply in a case where the surviving spouse is the sole trustee of the decedent's trust who pays the IRA proceeds to the surviving spouse pursuant to the terms of the trust in order to satisfy the language of the trust which provides that the trust estate is to be paid to said surviving spouse outright and free of trust, which surviving spouse then receives the IRA proceeds and rolls them into an IRA set up and maintained in his name.

In this case, Taxpayer B is the sole trustee of Trust Y, who, pursuant to the terms of Taxpayer A's Trust Y, will pay IRA X proceeds to Taxpayer B in order to comply with the language of Trust Y. Taxpayer B will then roll over the IRA X proceeds into an IRA set up and maintained in the name of Taxpayer B. Said rollover will occur within 60 days of the date on which the IRA X proceeds are distributed from IRA X. Under this set of facts, the Service will not apply the general rule set forth above.

Thus, with respect to your ruling requests, the Service concludes as follows:

1. That Taxpayer B will be treated as the payee or distributee of IRA X for purposes of Code section 408(d)(3);

2. that IRA X will not be treated as an inherited IRA within the meaning of Code section 408(d) with respect to Taxpayer B;

3. that Taxpayer B is eligible to roll over the distribution from IRA X into an IRA set up and maintained in his name, pursuant to Code section 408(d)(3)(A)(i) since the rollover of such distribution will occur no later than the 60th day following the day said IRA X proceeds are distributed from said IRA X; and

4. that Taxpayer B will not be required to include in his gross income for federal income tax purposes for calendar year 2001, the year in which said IRA X distribution will occur and the year in which said rollover to an IRA set up and maintained in Taxpayer B's name will be timely made, the amounts distributed from said IRA X and timely rolled over into Taxpayer B's IRA.

This ruling letter is based on the assumption that IRA X, referenced herein, either has complied or will comply with the requirements of Code section 408(a) at all times relevant thereto. It

also assumes that Taxpayer B's rollover IRA, will comply with the requirements of Code section 408(a) at all times relevant thereto. Finally, it assumes that the course of action outlined above will occur no later than December 31, 2001.

This letter ruling does not address issues, if any, that arise under the Proposed Income Tax Regulations issued under Code sections 401(a)(9) and 408 that were published at 2001-11 I.R.B. 865 (March 12, 2001).

This ruling is directed solely to the taxpayer who requested it. Section 6110(k)(3) of the Code provides that it may not be used or cited by others as precedent.

Pursuant to a power of attorney on file in this office, the original of this letter ruling is being sent to your authorized representative.

Sincerely yours,

Frances V. Sloan

Frances V. Sloan
Manager,
Employee Plans
Technical Group 3
Tax Exempt and Government
Entities Division

Enclosures:

Deleted copy of letter ruling
Form 437