

**DESCRIPTION OF ROTH FINANCING AMENDMENT TO THE
“INTERNAL REVENUE SERVICE RESTRUCTURING AND REFORM ACT OF 1998”
AS REPORTED BY THE SENATE COMMITTEE ON FINANCE**

A. Foreign Tax Credit Carryback and Carryover Periods (sec. 5002 of the bill)

Under the bill, the provision is effective with respect to credits arising in taxable years ending after the date of enactment. Under the modification, the provision would be effective with respect to credits arising in taxable years beginning after December 31, 1998.

B. Restrict Special Net Operating Loss Carryback Rules for Specified Liability Losses

Present Law

Under present law, that portion of a net operating loss that qualifies as a “specified liability loss” may be carried back 10 years rather than being limited to the general two-year carryback period. A specified liability loss includes amounts allowable as a deduction with respect to product liability, and also certain liabilities that arise under Federal or State law or out of any tort of the taxpayer. In the case of a liability arising out of a Federal or State law, the act (or failure to act) giving rise to the liability must occur at least 3 years before the beginning of the taxable year. In the case of a liability arising out of a tort, the liability must arise out of a series of actions (or failures to act) over an extended period of time a substantial portion of which occurred at least 3 years before the beginning of the taxable year. A specified liability loss cannot exceed the amount of the net operating loss, and is only available to taxpayers that used an accrual method throughout the period that the acts (or failures to act) giving rise to the liability occurred.

Description of Proposal

Under the proposal, specified liability losses would be defined and limited to include (in addition to product liability losses) only amounts allowable as a deduction that are attributable to a liability that arises under Federal or State law for reclamation of land, decommissioning of a nuclear power plant (or any unit thereof), dismantlement of an offshore oil drilling platform, remediation of environmental contamination, or payments arising under a workers' compensation statute, if the act (or failure to act) giving rise to such liability occurs at least 3 years before the beginning of the taxable year. No inference regarding the interpretation of the specified liability loss carryback rules under current law would be intended by this proposal.

Effective Date

The proposal would be effective for net operating losses arising in taxable years beginning after the date of enactment.

C. Modification of Minimum Distribution Requirements to Determine AGI for Roth IRA Conversions

Present Law

Under present law, uniform minimum distribution rules generally apply to all types of tax-favored retirement vehicles, including qualified retirement plans and annuities, individual retirement arrangements ("IRAs") other than Roth IRAs, and tax-sheltered annuities (sec 403(b)).

Under present law, distributions are required to begin no later than the participant's required beginning date (sec. 401(a)(9)). The required beginning date means the April 1 of the calendar year following the later of (1) the calendar year in which the employee attains age 70-1/2, or (2) the calendar year in which the employee retires. In the case of an employee who is a 5-percent owner (as defined in section 416), the required beginning date is April 1 of the calendar year following the calendar year in which the employee attains age 70-1/2. The Internal Revenue Service has issued extensive Regulations for purposes of calculating minimum distributions. In general, minimum distributions are includible in gross income in the year of distribution. An excise tax equal to 50 percent of the required distribution applies to the extent a required distribution is not made.

Under present law, all or any part of amounts held in a deductible or nondeductible IRA may be converted into a Roth IRA. Only taxpayers with adjusted gross income ("AGI") of \$100,000 or less are eligible to convert an IRA into a Roth IRA. In the case of a married taxpayer, AGI is the combined AGI of the couple. Married taxpayers filing a separate return are not eligible to make a conversion.

Description of Proposal

The proposal would modify the definition of AGI to exclude required minimum distributions from the taxpayer's AGI solely for purposes of determining eligibility to convert from an IRA to a Roth IRA. As under present law, the required minimum distribution would not be eligible for conversion and would be includible in gross income.

Effective Date

The proposal would be effective for taxable years beginning after December 31, 2004.

D. Extension of IRS User Fees

Present Law

The IRS provides written responses to questions of individuals, corporations, and organizations relating to their tax status or the effects of particular transactions for tax purposes in the form of ruling letters, determination letters, opinion letters, and other similar rulings or determinations. The IRS is directed by statute to establish a user fee program with respect to such rulings and determinations. Pursuant to this statutory authorization, the IRS establishes a schedule of user fees. The statutory authorization for the IRS user fee program is in effect for requests made before October 1, 2003 (P.L. 104-117).

Description of Proposal

The proposal would extend the IRS user fee program for requests made before October 1, 2007.

Effective Date

The proposal would be effective on the date of enactment.