Overview

This bill excludes income from conversions of regular IRAs to Roth IRAs from the definition of household income for purposes the property tax refund. This exclusion only applies to the extent that the conversion represents tax deductible contributions to the regular IRA. The property tax refund requires these contributions to be added in computing household income. Thus, they will have been counted under the program in the year made.

Section

1 Roth IRA conversions. Provides that the definition of income for purposes of the property tax refund does not include a rollover or conversion of a regular individual retirement account (IRA) into a Roth IRA. This exclusion is limited to amounts that were deducted in computing gross income under the income tax in the year made. Under the property tax refund, contributions to a regular IRA and some pension and deferred compensation plans must be included in income. Thus, these contributions that are being rolled over into a Roth IRA were already counted once in most cases for the PTR program.

The federal 1997 Taxpayer Relief Act created Roth IRAs, retirement accounts in which contributions are not deductible but distributions are exempt from income tax. The federal law allows taxpayers to convert existing traditional IRAs to Roth IRAs, but required taxpayers to recognize as income at the time of conversion the value of the traditional IRA less any nondeductible contributions made in previous tax years. Taxpayers who converted to a Roth IRA in 1998 were allowed to recognize the income over a four-year period.

For property tax refund purposes, conversion from a traditional IRA to a Roth IRA can result in a taxpayer with otherwise low income having substantially higher income in the year of the conversion.

2 Effective date. Effective for refunds paid beginning in 2000.