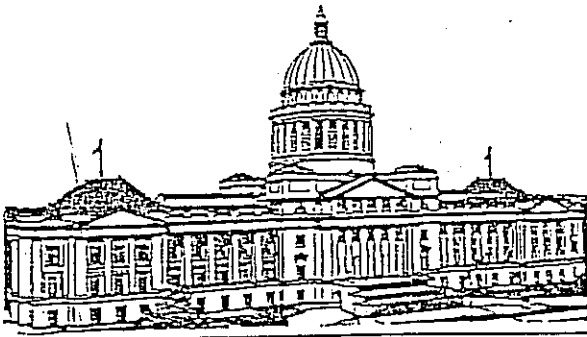


ARKANSAS REGISTER

Transmittal Sheet



Sharon Priest
Secretary of State
State Capitol Rm. 01
Little Rock, Arkansas 72201-1094

For Office Use Only: Effective Date 2/27/98 Code Number 006.05.98--003

Name of Agency Department of Finance & Administration

Department Revenue Division

Contact Person Don Zern Phone 682-7751

Statutory Authority for Promulgating Rules Ark. Code Ann. 26-18-301
Regulation 1998-2 (Income Tax - Roth IRAS)

	Date
Intended Effective Date	<u>3/9/98</u>
<input checked="" type="checkbox"/> Emergency	Legal Notice Published : <u>3/9/98</u>
<input type="checkbox"/> 10 Days After Filing	Final Date for Public Comment <u>4/24/98</u>
<input type="checkbox"/> Other	Filed With Legislative Council <u>2/27/98</u>
	Reviewed by Legislative Council <u> </u>
	Adopted by State Agency <u>2/27/98</u>

CERTIFICATION OF AUTHORIZED OFFICER

I Hereby Certify That The Attached Rules Were Adopted
In Compliance with Act 434 of 1967 As Amended.

Signature

682-7751

Phone Number

Taxpayer Information Officer

Title

February 27, 1998

Date

FILED
AR. REGISTER DIV.
98 FEB 27 PM 2:18
STATE OF ARKANSAS

EMERGENCY REGULATION 1998-2

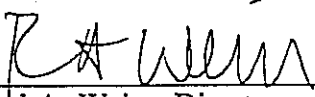
The Arkansas Individual Income Tax Regulations (1997) are amended to add a new provisions as follows:

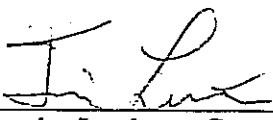
"7.26-51-414 Roth IRA's

The Taxpayer Relief Act of 1997 amended various provisions of the Internal Revenue Code (IRC) to concerning contributions to and income from a new individual retirement account commonly referenced as "Roth IRA." The IRC provisions have not been adopted by the State of Arkansas. In order to avoid confusion with respect to the Arkansas income tax treatment of Roth IRA transactions, the following rules apply.

- a. Contributions to a Roth IRA are not deductible under Ark. Code Ann. §26-51-414.
- b. Distributions from a Roth IRA are included in Arkansas gross income to the extent that such distributions would be taxable pursuant to Ark. Code Ann. §26-51-414.
- c. The conversion or rollover of a nonRoth IRA to a Roth IRA is a nonqualified distribution for Arkansas income tax purposes. For federal tax purposes, such distribution is subject to federal income tax; however, IRC §408A permits taxpayers to convert or rollover a nonRoth IRA to a Roth IRA during calendar year 1998 with special treatment for reporting the income from such distribution. An individual who is a resident or part-year resident of Arkansas during calendar year 1998 and who converts a nonRoth IRA to a Roth IRA shall include in 1998 Arkansas gross income the taxable amount converted.
- d. "Taxable amount converted" means that amount which would be subject to income tax pursuant to Ark. Code Ann. §26-51-414. No penalty is due on the conversion or rollover of a nonRoth IRA to a Roth IRA.
- e. A taxpayer may elect to pay the Arkansas income tax due on the taxable amount converted:
 - (1) on or before May 15, 1999, or
 - (2) in not more than four (4) equal installments. The first installment shall be paid on or before May 15, 1999. The remaining installments shall be due on or before May 15th of each subsequent year. Tax shall be paid with the filing of the Arkansas individual income tax return. A taxpayer electing to pay tax in installments must pay all tax attributable to 1998 income other than taxable amount converted as well as the first installment of tax attributable to taxable amount converted. Failure to pay all 1998 income tax when due shall cause all tax attributable to taxable amount converted to become due. Interest and penalty as provided by Ark. Code Ann. §26-18-208 shall apply to tax payments not made in accordance with this paragraph. Payments made in accordance with this paragraph shall not be subject to interest and penalty. Underestimation penalty shall not apply to the taxable amount converted. An election under (e)(2) of this paragraph constitutes an installment agreement pursuant to Ark. Code Ann. §26-18-807.
- f. The provisions of this regulation shall apply only to contributions, rollovers and distributions made by individual taxpayers during calendar year 1998 or which may be treated for federal income tax purposes as having occurred during 1998."

February 25th, 1998


Richard A. Weiss, Director
Department of Finance and
Administration


Timothy Leathers, Commissioner
of Revenues

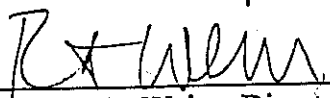
STATEMENT OF IMMINENT PERIL

The Taxpayer Relief Act of 1997 amended various provisions of the Internal Revenue Code (IRC) concerning contributions to and income from a new individual retirement account commonly referenced as a "Roth IRA." The federal provisions permit taxpayers to pay federal tax due over four (4) years only for IRA conversions which occur during 1998. The IRC provisions have not been adopted by the State of Arkansas. Accordingly, without this regulation, Arkansas taxpayers who elect to convert a nonRoth IRA to a Roth IRA would be required to pay all Arkansas income tax due on such conversion with their 1998 income tax returns. This tax obligation could constitute a hardship on many Arkansas families.

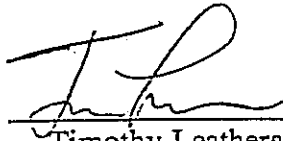
Ark. Code Ann. §26-18-807 authorizes the Director of the Department of Finance and Administration to enter into agreements with taxpayers for the payment of tax in installments. Emergency Regulation 1998-2 constitutes the determination of the Director that the collection of income tax attributable to an IRA conversion will be facilitated by permitting such tax to be paid over four (4) years. No penalty and interest will apply to such payments provided they are timely made. Payments not made on time will be subject to penalty and interest.

The effect of Emergency Regulation 1998-2 is to provide state tax treatment of Roth IRA conversions which is as similar as possible to federal tax treatment. In addition, because the federal provisions concerning the payment of tax over four (4) years only affects conversions during 1998, taxpayers and tax advisors need to know the Arkansas tax consequences of IRA conversions as quickly as possible. In order to avoid confusion with respect to the Arkansas income tax treatment of Roth IRA transactions, it is necessary that Emergency Regulation 1998-2 be effective immediately.

February 25th, 1998



Richard A. Weiss, Director
Department of Finance
and Administration



Timothy Leathers, Commissioner
of Revenue

DEPARTMENT: Department of Finance and Administration
DIVISION Revenue Division:
PERSON COMPLETING
THIS STATEMENT: David Foster, Income Tax Administrator
TELEPHONE NO.: (501) 682-1130
FAX NO.: (501) 682-1691

FILED
AL. REGISTER DIV.
98 FEB 27 PM 2:10
BY _____
STATE OF ALABAMA

FINANCIAL IMPACT STATEMENT

To comply with Act 884 of 1995, please complete the following Financial Impact Statement and file with the questionnaire and proposed rules.

SHORT TITLE OF THIS RULE: Regulation 1998-2 (Income Tax -- Roth IRAs)

1. Does this proposed, amended, or repealed rule or regulation have a financial impact?
Yes: No: **XX**
2. If you believe that the development of a financial impact statement is so speculative as to be cost prohibited, please explain.
3. If the purpose of this rule or regulation is to implement a federal rule or regulation, please give the incremental cost for implementing the regulation. **Does Not Apply.**

1997-98 Fiscal Year

General Revenue: _____
Federal Funds: _____
Cash Funds: _____
Special Revenue: _____
Other: _____
Total: _____

None

1997-98 Fiscal Year

General Revenue: _____
Federal Funds: _____
Cash Funds: _____
Special Revenue: _____
Other: _____
Total: _____

None

4. What is the total estimated cost by fiscal year to any party subject to the, proposed, amended, or repealed rule or regulation? **None.**

1997-98 Fiscal Year

None

1998-99 Fiscal Year

None

5. What is the total estimated cost by fiscal year to the agency to implement this regulation?

1997-98 Fiscal Year

No additional cost

1998-99 Fiscal Year

No additional cost