New York State Department of Taxation and Finance
Taxpayer Services Division
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New York Tax Treatment of Roth IRAs

The Tax Department has been asked to issue guidance concerning the tax treatment of Roth IRAs, and conversions of traditional IRAs to Roth IRAs, for New York State, New York City, and Yonkers personal income tax purposes. This Memorandum discusses that treatment, and covers residents and nonresidents, application of the New York accrual rules for part-year residents, and use of the $20,000 New York pension exclusion.

New York State, New York City, and Yonkers Residents

New York conforms in all respects to the federal income tax treatment of Roth IRAs. Accordingly, the following federal income tax rules apply in computing the New York State and New York City resident personal income taxes and the Yonkers resident personal income tax surcharge:

- **Contributions.** Contributions to a Roth IRA are not deductible.

- **Account Income.** Income earned in a Roth IRA account is tax-deferred while held in the account.

- **Distribution Income.** Income distributed from a Roth IRA is exempt from tax if it is exempt from federal income tax. If a Roth IRA distribution is subject to federal tax because it was not a qualified distribution, it is also subject to state and city taxes. In this Memorandum, these taxable income distributions will be referred to as *distribution income*.

- **Conversion Income.** Income attributable to the rollover or conversion of a traditional IRA to a Roth IRA is taxable to the same extent as for federal income tax purposes. Furthermore, if the rollover or conversion takes place before January 1, 1999, and the taxpayer elects to report the income over a four-year period for federal purposes, the taxpayer will report the income over a four-year period for state and city purposes. In this Memorandum, the taxable income from a rollover or conversion will be referred to as *conversion income*.

New York State Nonresidents

As to New York State nonresidents, the above rules for residents apply in computing *New York adjusted gross income*. New York adjusted gross income is used to compute the base tax (the tax as if a resident), and it is also the denominator of the income percentage. The numerator of the income percentage is *New York source income*. New York source income does not include Roth

IRA amounts. Such amounts, both distribution income and conversion income, are excluded by reason of section 114 of Title 4 of the U.S. Code (relating to limitation on state income taxation of pension income.)

New York City and Yonkers Nonresidents

The New York City and Yonkers nonresident earnings taxes are computed only on wages and net earnings from self-employment. Accordingly, Roth IRA amounts are not included in the computation of those taxes.

New York State, New York City, and Yonkers Part-Year Residents

If a taxpayer changes New York resident status during the year, the nonresident rules discussed above generally apply, with three modifications:

- Distribution income, and conversion income not subject to the federal four-year spread, are included in New York source income if the income is received or recognized while the taxpayer is a resident.

- If the taxpayer converts a traditional IRA to a Roth IRA prior to changing residence, and elects the federal four-year spread, for New York purposes the entire conversion income is accrued to the period prior to the residence change.

- In the case of a reconversion of a traditional IRA to a Roth IRA, the date of the last reconversion is used to determine the period (resident or nonresident) in which the conversion occurs. However, if the reconversion is an “excess reconversion” (i.e., the taxpayer exceeded the number of allowed reconversions) for federal income tax purposes, the date of the last prior valid reconversion is used.

These part-year resident rules are discussed in more detail below. The rules also apply in determining the period (resident or nonresident) in which the IRA income is recognized if a taxpayer changes residence status for New York City or Yonkers tax purposes. (However, as discussed under *New York City and Yonkers Nonresidents* above, IRA income recognized in the city nonresident period is not subject to city tax.)

Distribution Income. If a taxpayer receives a taxable distribution from a Roth IRA during the change-of-residence year, the distribution income is included in New York adjusted gross income for the change year. If the distribution is received in the resident period, the distribution income is also included in New York source income. If the distribution is received in the nonresident period, the distribution income is not included in New York source income.

Conversion Income. Immediate Recognition. If a taxpayer converts a traditional IRA to a Roth IRA during the change-of-residence year, and does not qualify or does not elect to report the conversion income over a four-year period, the entire conversion income is included in New York adjusted gross income for the change year. If the conversion occurs during the resident period, the entire conversion income is also included in New York source income. If the conversion occurs during the nonresident period, none of the conversion income is included in New York source income.

Conversion Income. Four-Year Spread. If a taxpayer converts a traditional IRA to a Roth IRA, elects to report the income over a four-year period for federal income tax purposes, and changes residence during any of the four years, the New York accrual rules may apply. However, the New York accruals do not have to be made if the taxpayer posts a bond or other acceptable security with the Tax Department. (For more information on the New York accruals, see TSB-M-94-(9)I.) The New York accrual rules apply to conversion income where the four-year spread is elected as follows:

- ***Resident to Nonresident***
  Conversion in Resident Period

Accrual If the taxpayer changes status from resident to nonresident, and the conversion takes place during the resident period, the entire conversion income reportable for federal purposes over the four-year period is accrued to the resident period, and accordingly included in both New York adjusted gross income and New York source income. This rule applies if the conversion occurs in the change-of-residence year. If the residence change occurs in a year following the conversion year, the accrual applies only to the remaining conversion income that is reportable for federal income tax purposes.

Example 1: On March 1, 1998, a taxpayer converts a $40,000 traditional IRA to a Roth IRA and elects to report the income over a four-year period for federal income tax purposes. The taxpayer changes status from resident to nonresident on July 1, 1998. The taxpayer must accrue the conversion income to the resident period, and accordingly would include the $40,000 conversion income in both New York adjusted gross income and New York source income in 1998.

Example 2: If the taxpayer in *Example 1* moves out of New York in 1999 rather than 1998, the taxpayer would report $10,000 conversion income as a resident in 1998. In the 1999 change year, the taxpayer would include in New York adjusted gross income and New York source income the remaining $30,000 conversion income.

Example 3: If the taxpayer in *Example 1* had elected to post a bond or other security, the New York accrual would not be made, and the taxpayer would file a New York return and include $10,000 of the conversion income in New York adjusted gross income and New York source income for each of the four years 1998 through 2001.

- ***Resident to Nonresident***
  Conversion in Nonresident Period

  No Accrual If the taxpayer changes status from resident to nonresident, and the conversion takes place in the nonresident period, accrual does not apply. The taxpayer would include in New York adjusted gross income the same amount included in federal adjusted gross income for the year, and no part of the federal amount would be included in New York source income. This rule applies to the change-of-residence year. It also applies to any subsequent nonresident years in the four-year period for which the taxpayer is required to file a New York return.

- ***Nonresident to Resident***
  Conversion in Nonresident Period

  If the taxpayer changes status from nonresident to resident, and the conversion takes place during the nonresident period, accrual depends on whether the traditional IRA is related to New York employment.

  - ***IRA Not Related to New York Employment***

    Accrual If the IRA is not related to employment in New York, accrual applies. The entire conversion income reportable for federal purposes over the four-year period is accrued to the nonresident period, and accordingly is included in New York adjusted gross income. No amount is included in New York source income. In addition, because of the accrual, none of the conversion income is included for New York purposes in the subsequent years of the federal four-year spread. These rules apply if the conversion occurs in the change-of-residence year. If the residence change occurs in a year following the conversion year, the accrual applies only to the remaining conversion income that is reportable for federal income tax purposes.

  Example 4: On May 12, 1998, a taxpayer converts a $40,000 traditional IRA to a Roth IRA. The taxpayer changes status from New York nonresident to New York resident on August 1, 1998. The traditional IRA is not related to employment in New York. The taxpayer must accrue the conversion income to the nonresident period. Accordingly, the taxpayer would include in New York adjusted gross income the $40,000 conversion income, and no amount of the conversion income would be included in New York source income. In addition, because of the accrual to 1998, the $10,000 conversion income reported in federal income in each of the three years 1999 through 2001 is excluded from New York income in those years.

  Example 5: If the taxpayer in *Example 4* moves into New York in 1999 rather than 1998, the taxpayer would include in his or her 1999 New York adjusted gross income but not in New York source income the $30,000 remaining conversion income. In addition, because of the 1999 accrual, the $10,000 conversion income reported in federal income in each of the two years 2000 and 2001 is excluded from New York income in those years.

  - ***IRA Related to New York Employment***

    No Accrual If the IRA is related to New York employment, accrual does not apply. The taxpayer would include in New York adjusted gross income the same amount included in federal adjusted gross income. No amount is included in New York source income since the conversion takes place during the nonresident period. In subsequent resident years, the taxpayer would include in New York adjusted gross income the same amount included in federal adjusted gross income.

These rules apply if the conversion occurs in the change-of-residence year. If the residence change occurs in a year following the conversion year, the amount reportable for federal purposes in the change year is deemed to be received during the nonresident period. Accordingly, the federal amount is included in New York adjusted gross income but not in New York source income for the change year. However, in subsequent resident years, the taxpayer would include in New York adjusted gross income the same amount included in federal adjusted gross income.

- ***Nonresident to Resident***
  Conversion in Resident Period

No Accrual If the taxpayer changes status from nonresident to resident, and the conversion takes place during the resident period, accrual does not apply. The taxpayer would include in New York adjusted gross income and New York source income the same amount of conversion income that is included in federal adjusted gross income for the year. Likewise in subsequent resident years, the taxpayer would include in New York adjusted gross income the same amount included in federal adjusted gross income.

New York's Pension and Annuity Exclusion

An individual who has reached the age of 59 ½ may exclude up to $20,000 of certain pension payments, including payments from IRAs, in computing the New York tax. This pension and annuity exclusion applies to Roth IRA amounts, both to distribution income and to conversion income, as follows:

- **Distribution Income.** If a taxpayer has distribution income from a Roth IRA, the taxpayer can exclude up to $20,000 of that income if the taxpayer is age 59 ½ at the time of the distribution.

- **Conversion Income. Immediate Recognition.** If a taxpayer rolls over or converts a traditional IRA to a Roth IRA, and does not qualify or does not elect to report the conversion income over a four-year period, the taxpayer can exclude up to $20,000 of the conversion income if the taxpayer is age 59 ½ at the time of the conversion.

- **Conversion Income. Four-Year Spread.** If a taxpayer converts a traditional IRA to a Roth IRA and elects to report the conversion income over a four-year period for federal income tax purposes, the taxpayer can exclude up to $20,000 of the conversion income for each of the four years in which the taxpayer is age 59 ½ for the entire year. If the taxpayer reaches age 59 ½ during the tax year, the taxpayer must prorate the conversion income for that year to determine the amount of the exclusion, based upon the number of days the taxpayer is age 59 ½ or older in that year.

Example 6: A taxpayer converts a $40,000 traditional IRA to a Roth IRA in 1998, and elects to report the conversion income over a four-year period for federal income tax purposes, so that $10,000 conversion income is reported in each of the four years 1998 through 2001. The taxpayer reaches age 59 ½ on November 1, 1998, and therefore is age 59 ½ for 61 days during 1998. The portion of the 1998 conversion income that qualifies for the pension exclusion is $1,671 ($10,000 x 61/365). All of the conversion income for 1999-2001 ($10,000 each year) qualifies for the pension exclusion.

Residents and Nonresidents. The above pension exclusion rules apply to residents. They also apply to nonresidents in computing New York adjusted gross income. The rules do not apply to nonresidents in computing New York source income, since Roth IRA amounts are not included in New York source income of a nonresident.

Part-Year Residents. The above pension exclusion rules likewise apply to part-year residents in computing New York adjusted gross income. They also apply in computing New York source income, with the exception discussed below, if the Roth IRA amounts are recognized in the resident period. They do no apply in computing New York source income if the Roth IRA amounts are recognized in the nonresident period, since in that event the Roth IRA amounts are not included in New York source income.

Exception for Conversion Income. If a taxpayer who elects to report Roth IRA conversion income over a four year period for federal income tax purposes reaches age 59 ½ during any of the four years, the general rule in *Conversion Income. Four-Year Spread*, above, is that the pension exclusion for that year is based upon the number of days the taxpayer is age 59 ½ or older in that year. However, for a part-year resident, the pension exclusion for that year is based upon the number of days during the *resident period* that the taxpayer is age 59 ½ or older. Note: The application of this rule may result in a larger exclusion for the conversion income in computing the taxpayer's New York source income than in computing his or her New York adjusted gross income.