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The stock market's drop in recent months has no immediate tax effect on the moneys of pre-retirement-age taxpayers whose traditional or Roth IRAs are invested in stocks and mutual funds. That's because neither losses nor gains are recognized within either type of IRA. However, there are some tax strategies for owners of traditional or Roth IRAs to consider, whether they are still in their working years or are retired and taking required minimum distributions (RMDs) from their accounts.

Converting traditional IRA or qualified plan funds to Roth IRA. Taxpayers may convert amounts in a traditional IRA to amounts in a Roth IRA without regard to their modified adjusted gross income or filing status. The conversion may be done in one of three ways: (1) Rollover to a Roth IRA of a distribution from a traditional IRA within 60 days of the distribution. (2) Trustee-to-trustee transfer from the trustee of the traditional IRA to the trustee of the Roth IRA. (3) Transfer of an amount in a traditional IRA to a Roth IRA maintained by the same trustee.

Individuals considering whether to roll over or convert for 2015 should keep in mind that, unlike the usual IRA rollover, a switch from a traditional IRA or qualified plan to a Roth IRA is not income-tax-free. Instead, it is subject to tax as if it were distributed from the traditional IRA or qualified plan and not recontributed to another IRA.

Recharacterizing a conversion from regular IRA to Roth IRA. A taxpayer who earlier this year—when the market was higher—converted from a traditional IRA (or qualified plan account) invested in stocks to a Roth IRA will wind up with an artificially high tax bill if the market doesn't recover quickly and he leaves things as

Oct. 17, 2016, if he gets an automatic extension of six months to file his 2015 return). A taxpayer who timely files his 2015 return without having recharacterized a 2015 conversion may do so as late as six months after the original due date for filing the 2015 return, i.e., by Oct. 17, 2016.

Reconverting a traditional IRA to a Roth IRA. A person who converted an amount from a traditional IRA to a Roth IRA may not only transfer the amount back to a traditional IRA in a recharacterization, but may later reconvert that amount from the traditional IRA to a Roth IRA.

Timing considerations. The reconversion cannot be made before the later of:

- The beginning of the tax year following the tax year in which the amount was converted to a Roth IRA; or
- The end of the 30-day period beginning on the day on which the IRA owner transfers the amount from the Roth IRA back to a traditional IRA by way of a recharacterization.

This timing rule applies regardless of whether the recharacterization occurs during the tax year in which the amount was converted to a Roth IRA or the following tax year.

Losses on investments held by traditional IRAs. Losses on investments held by traditional IRAs aren't recognized when the IRA holdings are sold at a loss. If a taxpayer hasn't made any nondeductible IRA contributions, a loss won't be recognized even when all amounts are distributed from his IRAs. That's because he has a zero basis in the IRA. However, if he has made nondeductible traditional IRA contributions, and liquidates *all* of his traditional IRAs, a loss is recognized if the amounts distributed are less than his remaining unrecovered basis in his traditional IRAs.

Losses on investments held by Roth IRAs. Roth IRAs are treated the same as

such losses are added back to taxable income for purposes of computing the AMT.

Unexpected tax trap for Roth IRA owners. A 10% premature withdrawal penalty tax applies if a taxpayer makes a traditional-IRA-to-Roth-IRA conversion and then withdraws converted amounts (under the sourcing rules) within the 5-tax-year-period beginning with the tax year in which the conversion took place. Because the penalty tax applies to a distribution to the extent that the converted amount was taxable when the conversion took place, a taxpayer could wind up paying a penalty tax even though none of the distribution is includable in income.

Effect of market decline on traditional IRA owners currently receiving RMDs. Taxpayers must start taking RMDs from their traditional IRAs by April 1 following the year in which they attain age 70-1/2. These taxpayers can't reduce their RMDs for 2015 to account for a current decline in their IRAs' market value. That's because each year's RMD generally is determined by applying a life-expectancy table factor to the IRA account balance as of the end of the previous year.

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