APPRAISEITNOW GUIDE

Roth IRA Conversion Valuation: Valuing a Private Company Interest on the Conversion Date

A Roth IRA conversion valuation sets the fair market value of LLC, LP or private fund units on the conversion date. This guide walks IRA owners and custodians through each step, from preparing before the conversion to Form 1099-R and the separate December 31 Form 5498 reporting.

AppraiseItNow Inc.

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Educational material, not an appraisal.

Key Takeaways

Here is what IRA owners and custodians need to know about a Roth IRA conversion valuation for a private company interest:

- **Taxable amount:** A Roth conversion is taxed on the fair market value of the converted assets on the conversion date, less any after-tax basis. IRS Publication 590-A covers IRA contributions and conversions for owners.
- **Custodian reporting:** A custodian still reports a value for LLC, LP or private fund units that have no readily available market value. Each custodian sets its own requirements to support that value.
- **Effective date:** AppraiseItNow's Roth IRA conversion valuations use the conversion date as the effective date.
- **What to send:** AppraiseItNow needs the custodian's FBO name and account, the custodian's form, the conversion date and the units converting.
- **Year-end reporting:** The custodian reports the account's December 31 value each year on Form 5498, separately from the conversion. Boxes 15a and 15b are used for hard-to-value assets.

A Roth IRA conversion valuation puts a supportable number on a private company interest as of the date it converts from a traditional IRA to a Roth IRA. That number matters because the conversion is taxed on that value, and the custodian has to report it even though no exchange quotes the units. The sections below follow the sequence in order: before the conversion date, the conversion date itself, Form 1099-R after the conversion, Form 5498 each December 31, and the custodian's form.

What Should Happen Before the Conversion Date?

The weeks before the conversion date are when the owner and the custodian settle every input the valuation depends on. A conversion of private units goes smoothly when the custodian, the company and the appraiser all work from the same unit count, the same date and the same account title. Settling those 3 details first keeps everyone working from a single set of facts.

Confirm Exactly Which Units Are Converting

The units converting define the subject of the valuation. An owner converting part of a holding needs a precise count, not an approximate dollar target, because the appraisal values a specific block of units.

The owner should write down the following details about the interest before contacting anyone:

- **Entity name:** The legal name of the LLC, LP or fund, exactly as it appears in the governing agreement.
- **Unit class:** The class or series of units, since many private funds and LLCs issue more than 1 class with different rights.
- **Units converting:** The number of units moving to the Roth IRA, along with the total units the traditional IRA holds.
- **Ownership percentage:** The percentage of the entity those converting units represent, checked against the latest capital account statement.

Watch out: A unit count copied from an old statement ignores later capital calls, redemptions or transfers. Ask the general partner or manager to confirm the IRA's current holding in writing before the conversion date.

Gather the Company Records

A private company interest held in an IRA is valued from the same records that any business valuation starts from. For a business valuation, AppraiseItNow needs what is valued (the company, the interest or percentage) and the valuation date, financial statements or tax returns up to that date, and the company agreement; past appraisals or offers help. The ownership percentage is the fact most often wrong.

The company agreement deserves particular attention. The operating agreement or limited partnership agreement describes the units the IRA holds, and the version on file should be the current one with every amendment attached. The owner should ask the manager or general partner for the complete signed agreement rather than relying on a copy saved years earlier.

Contact the Custodian Early

The custodian controls the conversion paperwork, so the owner should call it before anything else is scheduled. The owner should ask the custodian which department handles its valuation form for private units. The owner should then ask that department for its current valuation form, the exact title of the account, and the date it will record as the conversion date.

Pro tip: Ask the custodian to email its form rather than downloading a copy from its website, and confirm that the form in hand is the custodian's current version before completing it.

How Does the Conversion Date Set the Roth IRA Conversion Valuation?

The conversion date fixes both the tax measurement and the effective date of the valuation. A Roth conversion is taxed on the fair market value of the converted assets on the conversion date, less any after-tax basis. The custodian reports it on Form 1099-R. Treasury Regulation section 1.408A-4 on converting amounts to Roth IRAs is the regulation that governs conversions.

The effective date of the appraisal follows the same date. AppraiseItNow sets the effective date by purpose: for insurance coverage and personal use, the report date; for estate and probate, the date of death; for a donation, the contribution date, or the report date for a future gift signed no more than 60 days before it; for a gift, the date of the gift; for an insurance claim, the date of loss; for a divorce, the date counsel sets; for an IRA conversion, the conversion date.

The owner should confirm the conversion date in writing with the custodian and pass that exact date to AppraiseItNow. A date that shifts after the valuation is underway changes the effective date of the report. Owners planning to convert units in more than 1 batch should list each date and the units in each batch at the outset.

Example (hypothetical): A traditional IRA holds 10,000 units of a private equity fund, and the owner converts 4,000 units on a single date the custodian confirms in writing. The valuation addresses those 4,000 units as of that confirmed date. The 6,000 units that stay in the traditional IRA are not part of the conversion.

After the Conversion: Form 1099-R Reporting

Form 1099-R is where the custodian reports the conversion. The custodian prepares the form, and the value it reports for private units rests on the support the custodian required before the conversion. The owner's job after the conversion date is to make sure the custodian has everything it asked for and that the owner's own records match.

Private units create a specific reporting problem for custodians. For assets without a readily available market value, the custodian must still report a value, and each custodian sets what it needs to support that value (its own form, often an independent valuation). The custodian's form and the valuation report together form the record behind that number.

The owner should keep a complete set of conversion documents in one place:

- **Valuation report:** The final report with the conversion date as its effective date.
- **Custodian's completed form:** The signed version the custodian accepted for processing.
- **Conversion confirmation:** The custodian's written confirmation of the conversion date and the units moved.
- **Unit confirmation:** The manager's or general partner's written confirmation of the IRA's holding.

The owner should send a copy of this file to the tax adviser who prepares the return. The tax adviser determines whether any after-tax basis applies and keeps the records that support that determination.

Key takeaway: When the Form 1099-R arrives, compare the value on it to the value in the valuation report and the custodian's form. A mismatch is easiest to correct while the custodian still has the conversion file open.

Each December 31: Form 5498 Reporting for Hard-to-Value Assets

Year-end reporting is a separate obligation from the conversion. Separately, the custodian reports the account's December 31 value each year on Form 5498 (boxes 15a and 15b for hard-to-value assets). The IRS Instructions for Forms 1099-R and 5498 set out how custodians complete both forms.

The conversion-date valuation speaks to the conversion date. December 31 is a different date, so the conversion report does not answer the year-end question on its own. The owner should ask the custodian, well before each year-end, what support it needs for the December 31 value of every account holding private units.

Private units moved in a partial conversion appear in 2 accounts after the conversion. The Roth IRA holds the converted units, and the traditional IRA holds the rest. The owner should ask the custodian whether it needs a separate year-end form for each account, and should confirm the unit count in each account against the manager's records every year.

The Custodian's Form and What AppraiseItNow Needs for a Roth IRA Conversion Valuation

The custodian's form is the document that ties the valuation to the account. Every custodian writes its own version, and the form decides what the custodian sees and signs off on. For a Roth IRA conversion, AppraiseItNow needs the custodian's FBO name and account, the custodian's form, the conversion date and the units converting.

Each of those 4 items does specific work in the engagement:

- **FBO name and account:** FBO stands for "for the benefit of," and the FBO name is how the custodian titles the IRA, typically the custodian's name followed by "FBO" and the owner's name. The account title and number should match exactly what the custodian records so the custodian can tie the report to the right account.
- **The custodian's form:** The form shows which fields the custodian wants completed, who signs each section and whether the custodian wants the report attached.
- **The conversion date:** The conversion date becomes the effective date of the valuation, so it has to be the date the custodian confirmed.
- **The units converting:** The unit count, class and ownership percentage identify the units the valuation covers.

The custodian's form itself deserves a careful read before the owner sends it. The owner should note which sections the owner signs and which sections the custodian reserves for itself, then ask the custodian who completes each of the remaining sections. The owner should also check the completed form against the custodian's instructions before sending it.

Pro tip: Have the custodian's exact account title and number ready when requesting the appraisal, copied from a recent custodian statement rather than retyped from memory.

The table below summarizes each step, the date that governs it and the document involved:

Step	Governing date	Who acts	Key document
Before the conversion	Ahead of the conversion date	Owner, custodian, company manager	Custodian's form, company agreement, unit confirmation
Conversion date	The conversion date	Custodian records the conversion	Valuation report with the conversion date as effective date
After the conversion	Reporting for the conversion	Custodian	Form 1099-R
Each year-end	December 31	Custodian	Form 5498 (boxes 15a and 15b for hard-to-value assets)

Start the Roth IRA Conversion Valuation with the Custodian's Requirements in Hand

A Roth conversion of private units depends on 4 inputs agreeing with each other: the account title, the custodian's form, the conversion date and the unit count. The owner who settles those inputs with the custodian and the company manager before the conversion date gives the valuation a clean foundation. The same discipline carries into every December 31, when the custodian reports the account's value again on Form 5498.

Between them, AppraiseItNow's appraisers hold ASA, ISA, AAA, CAGA, NACVA, NEBB Institute, ABV and CFA credentials. Gather the custodian's form, the FBO name and account, the confirmed conversion date and the units converting, then request an appraisal for your Roth IRA conversion.

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