

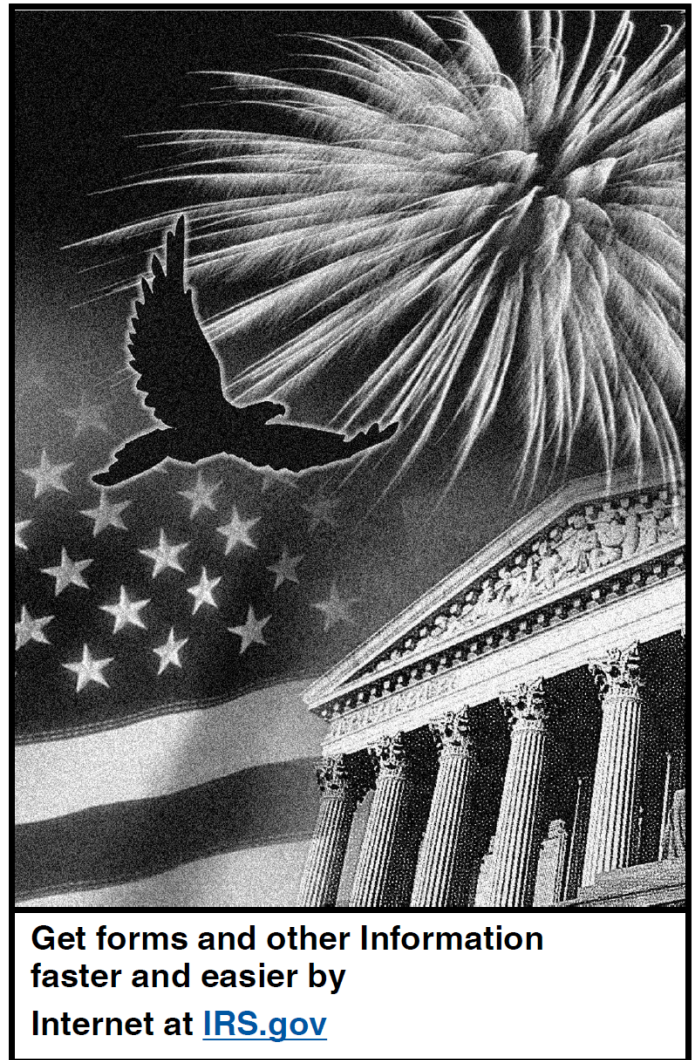
Publication 590

Individual Retirement Arrangements (IRAs)

For Use in Preparing

2013 Returns

Volume 1 of 5



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Note. After 2013, Publication 590 will be split into two separate publications as follows.

- Publication 590-A, will focus on contributions to traditional IRAs as well as Roth IRAs. This publication will include the rules for rollover and conversion contributions.

- Publication 590-B, will focus on distributions from traditional IRAs as well as Roth IRAs. This publication will include the rules for required minimum distributions and IRA beneficiaries.

What's New for 2013

Traditional IRA contribution and deduction limit. The contribution limit to your traditional IRA for 2013 will be increased to the smaller of the following amounts:

- \$5,500, or
- Your taxable compensation for the year.

If you were age 50 or older before 2014, the most that can be contributed to your traditional IRA for 2013 will be the smaller of the following amounts:

- \$6,500, or
- Your taxable compensation for the year.

For more information, see *How Much Can Be Contributed?* in chapter 1.

Roth IRA contribution limit.

If contributions on your behalf are made only to Roth IRAs, your contribution limit for 2013 will generally be the lesser of:

- \$5,500, or
- Your taxable compensation for the year.

If you were age 50 or older before 2014 and contributions on your behalf were made only to Roth IRAs, your contribution limit for 2013 will generally be the lesser of:

- \$6,500, or
- Your taxable compensation for the year.

However, if your modified adjusted gross income (AGI) is above a certain amount, your contribution limit may be reduced.

For more information, see *How Much Can Be Contributed?* under Can You Contribute to a Roth IRA? in chapter 2.

Modified AGI limit for traditional IRA contributions increased. For 2013, if you were covered by a retirement plan at work, your deduction for contributions to a

traditional IRA is reduced (phased out) if your modified AGI is:

- More than \$95,000 but less than \$115,000 for a married couple filing a joint return or a qualifying widow(er),
- More than \$59,000 but less than \$69,000 for a single individual or head of household, or
- Less than \$10,000 for a married individual filing a separate return.

If you either lived with your spouse or file a joint return, and your spouse was covered by a retirement plan at work, but you were not, your deduction is phased out if your modified AGI is more than \$178,000 but less than \$188,000. If your modified AGI is \$188,000 or more, you cannot take a deduction for contributions to a traditional IRA. See *How Much Can You Deduct?* in chapter 1.

Modified AGI limit for Roth IRA contributions increased. For 2013, your Roth IRA contribution limit is reduced (phased out) in the following situations.

- Your filing status is married filing jointly or qualifying widow(er) and your modified AGI is at least \$178,000. You cannot make a Roth IRA contribution if your modified AGI is \$188,000 or more.
- Your filing status is single, head of household, or married filing separately and you did not live with your spouse at any time in 2013 and your modified AGI is at least \$112,000. You cannot make a Roth IRA contribution if your modified AGI is \$127,000 or more.
- Your filing status is married filing separately, you lived with your spouse at any time during the year, and your modified AGI is more than -0-. You cannot make a Roth IRA contribution if your modified AGI is \$10,000 or more.

See *Can You Contribute to a Roth IRA?* in chapter 2.

Net Investment Income Tax. For purposes of the Net Investment Income Tax (NIIT), net investment income does not include distributions from a qualified retirement plan

(for example, 401(a), 403(a), 403(b), 457(b) plans, and IRAs). However, these distributions are taken into account when determining the modified adjusted gross income threshold. Distributions from a nonqualified retirement plan are included in net investment income. See Form 8960, Net Investment Income Tax—Individuals, Estates, and Trusts, and its instructions for more information.

Kay Bailey Hutchison Spousal IRA. In 2013, spousal IRAs were renamed to Kay Bailey Hutchison Spousal IRAs. There are no changes to the rules regarding these IRAs. See *Kay Bailey Hutchison Spousal IRA Limit* in chapter 1 for more information.

What's New for 2014

Modified AGI limit for traditional IRA contributions increased. For 2014, if you are covered by a retirement plan at work, your deduction for contributions to a traditional IRA is reduced (phased out) if your modified AGI is:

- More than \$96,000 but less than \$116,000 for a married couple filing a joint return or a qualifying widow(er),
- More than \$60,000 but less than \$70,000 for a single individual or head of household, or
- Less than \$10,000 for a married individual filing a separate return.

If you either live with your spouse or file a joint return, and your spouse is covered by a retirement plan at work, but you are not, your deduction is phased out if your modified AGI is more than \$181,000 but less than \$191,000. If your modified AGI is \$191,000 or more, you cannot take a deduction for contributions to a traditional IRA.

Modified AGI limit for Roth IRA contributions increased. For 2014, your Roth IRA contribution limit is reduced (phased out) in the following situations.

- Your filing status is married filing jointly or qualifying widow(er) and your modified AGI is at least \$181,000. You cannot

make a Roth IRA contribution if your modified AGI is \$191,000 or more.

- Your filing status is single, head of household, or married filing separately and you did not live with your spouse at any time in 2014 and your modified AGI is at least \$114,000. You cannot make a Roth IRA contribution if your modified AGI is \$129,000 or more.
- Your filing status is married filing separately, you lived with your spouse at any time during the year, and your modified AGI is more than -0-. You cannot make a Roth IRA contribution if your modified AGI is \$10,000 or more.

Reminders

Future developments. For the latest information about developments related to Publication 590, such as legislation enacted after it was published, go to www.irs.gov/pub590.

Simplified employee pension (SEP). SEP IRAs are not covered in this publication. They

are covered in Publication 560, Retirement Plans for Small Business.

Deemed IRAs. A qualified employer plan (retirement plan) can maintain a separate account or annuity under the plan (a deemed IRA) to receive voluntary employee contributions. If the separate account or annuity otherwise meets the requirements of an IRA, it will be subject only to IRA rules. An employee's account can be treated as a traditional IRA or a Roth IRA.

For this purpose, a “qualified employer plan” includes:

- A qualified pension, profit-sharing, or stock bonus plan (section 401(a) plan),
- A qualified employee annuity plan (section 403(a) plan),
- A tax-sheltered annuity plan (section 403(b) plan), and
- A deferred compensation plan (section 457 plan) maintained by a state, a political subdivision of a state, or an

agency or instrumentality of a state or political subdivision of a state.

Contributions to both traditional and Roth IRAs. For information on your combined contribution limit if you contribute to both traditional and Roth IRAs, see *Roth IRAs and traditional IRAs* under *How Much Can Be Contributed?* in chapter 2.

Statement of required minimum distribution (RMD). If an RMD is required from your IRA, the trustee, custodian, or issuer that held the IRA at the end of the preceding year must either report the amount of the RMD to you, or offer to calculate it for you. The report or offer must include the date by which the amount must be distributed. The report is due January 31 of the year in which the minimum distribution is required. It can be provided with the year-end fair market value statement that you normally get each year. No report is required for section 403(b) contracts (generally tax-sheltered annuities) or for IRAs of owners who have died.

IRA interest. Although interest earned from your IRA is generally not taxed in the year

earned, it is not tax-exempt interest. Tax on your traditional IRA is generally deferred until you take a distribution. Do not report this interest on your return as tax-exempt interest. For more information on tax-exempt interest, see the instructions for your tax return.

Photographs of missing children. The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

Introduction

This publication discusses individual retirement arrangements (IRAs). An IRA is a personal savings plan that gives you tax advantages for setting aside money for retirement.

What are some tax advantages of an IRA? Two tax advantages of an IRA are that:

- Contributions you make to an IRA may be fully or partially deductible, depending on which type of IRA you have and on your circumstances, and
- Generally, amounts in your IRA (including earnings and gains) are not taxed until distributed. In some cases, amounts are not taxed at all if distributed according to the rules.

What's in this publication? This publication discusses traditional, Roth, and SIMPLE IRAs. It explains the rules for:

- Setting up an IRA,
- Contributing to an IRA,
- Transferring money or property to and from an IRA,
- Handling an inherited IRA,
- Receiving distributions (making withdrawals) from an IRA, and
- Taking a credit for contributions to an IRA.

It also explains the penalties and additional taxes that apply when the rules are not followed. To assist you in complying with the tax rules for IRAs, this publication contains worksheets, sample forms, and tables, which can be found throughout the publication and in the appendices at the back of the publication.

How to use this publication. The rules that you must follow depend on which type of IRA you have. Use Table I-1 to help you determine which parts of this publication to read. Also use Table I-1 if you were referred to this publication from instructions to a form.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

You can write to us at the following address:

Internal Revenue Service
Tax Forms and Publications Division
1111 Constitution Ave. NW, IR-6526
Washington, DC 20224

We respond to many letters by telephone. Therefore, it would be helpful if you would include your daytime phone number, including the area code, in your correspondence.

You can send your comments from www.irs.gov/formspubs/. Click on "More Information" and then on "Comment on Tax Forms and Publications".

Although we cannot respond individually to each comment received, we do appreciate your feedback and will consider your comments as we revise our tax products.

Ordering forms and publications. Visit www.irs.gov/formspubs/ to download forms and publications, call 1-800-TAX-FORM (1-800-829-3676), or write to the address below and receive a response within 10 days after your request is received.

Internal Revenue Service
1201 N. Mitsubishi Motorway
Bloomington, IL 61705-6613

Tax questions. If you have a tax question, check the information available on IRS.gov or call 1-800-829-1040. We cannot answer tax questions sent to either of the above addresses.

Useful Items

You may want to see:

Publications

- ☐ **560** Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans)
- ☐ **571** Tax-Sheltered Annuity Plans (403(b) Plans)
- ☐ **575** Pension and Annuity Income
- ☐ **939** General Rule for Pensions and Annuities

Forms (and instructions)

- ☐ **W-4P** Withholding Certificate for Pension or Annuity Payments
- ☐ **1099-R** Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

- **5304-SIMPLE** Savings Incentive Match Plan for Employees of Small Employers (SIMPLE)–Not for Use With a Designated Financial Institution
- **5305-S** SIMPLE Individual Retirement Trust Account
- **5305-SA** SIMPLE Individual Retirement Custodial Account
- **5305-SIMPLE** Savings Incentive Match Plan for Employees of Small Employers (SIMPLE)–for Use With a Designated Financial Institution
- **5329** Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts
- **5498** IRA Contribution Information
- **8606** Nondeductible IRAs
- **8815** Exclusion of Interest From Series EE and I U.S. Savings Bonds Issued After 1989
- **8839** Qualified Adoption Expenses

□ **8880** Credit for Qualified Retirement
Savings Contributions

See chapter 5 for information about getting
these publications and forms.

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Table I-1. Using This Publication

IF you need information on ...	THEN see ...
traditional IRAs	chapter 1.
Roth IRAs	chapter 2 , and parts of chapter 1.
SIMPLE IRAs	chapter 3.
the credit for qualified retirement savings contributions (the saver's credit)	chapter 4.
how to keep a record of your contributions to, and distributions from, your traditional IRA(s)	appendix A.
SEP IRAs and 401(k) plans	Publication 560.
Coverdell education savings accounts (formerly called education IRAs)	Publication 970.

IF for 2013, you <ul style="list-style-type: none">received social security benefits,had taxable compensation,contributed to a traditional IRA, andyou or your spouse was covered by an employer retirement plan, and you want to...	THEN see ...
first figure your modified adjusted gross income (AGI)	appendix B, worksheet 1.
then figure how much of your traditional IRA contribution you can deduct	appendix B, worksheet 2.
and finally figure how much of your social security is taxable	appendix B, worksheet 3.

Table I-2. **How Are a Traditional IRA and a Roth IRA Different?**

This table shows the differences between traditional and Roth IRAs. Answers in the middle column apply to traditional IRAs. Answers in the right column apply to Roth IRAs.

Question	Answer	
	Traditional IRA?	Roth IRA?
Is there an age limit on when I can open and contribute to a	Yes. You must not have reached age 70½ by the end of the year. See Who Can Open a Traditional IRA? in chapter 1.	No. You can be any age. See Can You Contribute to a Roth IRA? in chapter 2.
If I earned more than \$5,500 in 2013 (\$6,500 if I was 50 or older by the end of 2013), is there a limit on how much I can contribute to a	Yes. For 2013, you can contribute to a traditional IRA up to: <ul style="list-style-type: none">• \$5,500, or• \$6,500 if you were age 50 or older by the end of 2013. There is no upper limit on how much you can earn and still contribute. See How Much Can Be Contributed? in chapter 1.	Yes. For 2013, you may be able to contribute to a Roth IRA up to: <ul style="list-style-type: none">• \$5,500, or• \$6,500 if you were age 50 or older by the end of 2013, but the amount you can contribute may be less than that depending on your income, filing status, and if you contribute to another IRA. See How Much Can Be Contributed? and Table 2-1 in chapter 2.
Can I deduct contributions to a	Yes. You may be able to deduct your contributions to a traditional IRA depending on your income, filing status, whether you are covered by a retirement plan at work, and whether you receive social security benefits. See How Much Can You Deduct? in chapter 1.	No. You can never deduct contributions to a Roth IRA. See What Is a Roth IRA? in chapter 2.
Do I have to file a form just because I contribute to a	Not unless you make nondeductible contributions to your traditional IRA. In that case, you must file Form 8606. See Nondeductible Contributions in chapter 1.	No. You do not have to file a form if you contribute to a Roth IRA. See Contributions not reported in chapter 2.
Do I have to start taking distributions when I reach a certain age from a	Yes. You must begin receiving required minimum distributions by April 1 of the year following the year you reach age 70½. See When Must You Withdraw Assets? (Required Minimum Distributions) in chapter 1.	No. If you are the original owner of a Roth IRA, you do not have to take distributions regardless of your age. See Are Distributions Taxable? in chapter 2. However, if you are the beneficiary of a Roth IRA, you may have to take distributions. See Distributions After Owner's Death in chapter 2.
How are distributions taxed from a	Distributions from a traditional IRA are taxed as ordinary income, but if you made nondeductible contributions, not all of the distribution is taxable. See Are Distributions Taxable? in chapter 1.	Distributions from a Roth IRA are not taxed as long as you meet certain criteria. See Are Distributions Taxable? in chapter 2.
Do I have to file a form just because I receive distributions from a	Not unless you have ever made a nondeductible contribution to a traditional IRA. If you have, file Form 8606. See Nondeductible Contributions in chapter 1.	Yes. File Form 8606 if you received distributions from a Roth IRA (other than a rollover, qualified charitable distribution, one-time distribution to fund an HSA, recharacterization, certain qualified distributions, or a return of certain contributions).

1.

Traditional IRAs

What's New for 2013

Traditional IRA contribution and deduction limit. The contribution limit to your traditional IRA for 2013 will be increased to the smaller of the following amounts:

- \$5,500, or
- Your taxable compensation for the year.

If you were age 50 or older before 2014, the most that can be contributed to your traditional IRA for 2013 will be the smaller of the following amounts:

- \$6,500, or
- Your taxable compensation for the year.

For more information, see *How Much Can Be Contributed?* in this chapter.

Modified AGI limit for traditional IRA contributions increased. For 2013, if you

were covered by a retirement plan at work, your deduction for contributions to a traditional IRA is reduced (phased out) if your modified AGI is:

- More than \$95,000 but less than \$115,000 for a married couple filing a joint return or a qualifying widow(er),
- More than \$59,000 but less than \$69,000 for a single individual or head of household, or
- Less than \$10,000 for a married individual filing a separate return.

If you either lived with your spouse or file a joint return, and your spouse was covered by a retirement plan at work, but you were not, your deduction is phased out if your modified AGI is more than \$178,000 but less than \$188,000. If your modified AGI is \$188,000 or more, you cannot take a deduction for contributions to a traditional IRA. See *How Much Can You Deduct?* in this chapter.

Net Investment Income Tax. For purposes of the Net Investment Income Tax (NIIT), net investment income does not include

distributions from a qualified retirement plan (for example, 401(a), 403(a), 403(b), 457(b) plans, and IRAs). However, these distributions are taken into account when determining the modified adjusted gross income threshold. Distributions from a nonqualified retirement plan are included in net investment income. See Form 8960, Net Investment Income Tax—Individuals, Estates, and Trusts, and its instructions for more information.

What's New for 2014

Modified AGI limit for traditional IRA contributions increased. For 2014, if you are covered by a retirement plan at work, your deduction for contributions to a traditional IRA is reduced (phased out) if your modified AGI is:

- More than \$96,000 but less than \$116,000 for a married couple filing a joint return or a qualifying widow(er),
- More than \$60,000 but less than \$70,000 for a single individual or head of household, or

- Less than \$10,000 for a married individual filing a separate return.

If you either live with your spouse or file a joint return, and your spouse is covered by a retirement plan at work, but you are not, your deduction is phased out if your modified AGI is more than \$181,000 but less than \$191,000. If your modified AGI is \$191,000 or more, you cannot take a deduction for contributions to a traditional IRA.

Introduction

This chapter discusses the original IRA. In this publication the original IRA (sometimes called an ordinary or regular IRA) is referred to as a “traditional IRA.” A traditional IRA is any IRA that is not a Roth IRA or a SIMPLE IRA. The following are two advantages of a traditional IRA:

- You may be able to deduct some or all of your contributions to it, depending on your circumstances.

- Generally, amounts in your IRA, including earnings and gains, are not taxed until they are distributed.

Who Can Open a Traditional IRA?

You can open and make contributions to a traditional IRA if:

- You (or, if you file a joint return, your spouse) received taxable compensation during the year, and
- You were not age 70½ by the end of the year.

You can have a traditional IRA whether or not you are covered by any other retirement plan. However, you may not be able to deduct all of your contributions if you or your spouse is covered by an employer retirement plan. See *How Much Can You Deduct*, later.

Both spouses have compensation. If both you and your spouse have compensation and are under age 70½, each of you can open an IRA. You cannot both participate in the same

IRA. If you file a joint return, only one of you needs to have compensation.

What Is Compensation?

Generally, compensation is what you earn from working. For a summary of what compensation does and does not include, see Table 1-1. Compensation includes all of the items discussed next (even if you have more than one type).

Wages, salaries, etc. Wages, salaries, tips, professional fees, bonuses, and other amounts you receive for providing personal services are compensation. The IRS treats as compensation any amount properly shown in box 1 (Wages, tips, other compensation) of Form W-2, Wage and Tax Statement, provided that amount is reduced by any amount properly shown in box 11 (Nonqualified plans). Scholarship and fellowship payments are compensation for IRA purposes only if shown in box 1 of Form W-2.

Commissions. An amount you receive that is a percentage of profits or sales price is compensation.

Selfemployment income. If you are self-employed (a sole proprietor or a partner), compensation is the net earnings from your trade or business (provided your personal services are a material income-producing factor) reduced by the total of:

- The deduction for contributions made on your behalf to retirement plans, and
- The deduction allowed for the deductible part of your self-employment taxes.

Compensation includes earnings from self-employment even if they are not subject to self-employment tax because of your religious beliefs.

Self-employment loss. If you have a net loss from self-employment, do not subtract the loss from your salaries or wages when figuring your total compensation.

Alimony and separate maintenance. For IRA purposes, compensation includes any

taxable alimony and separate maintenance payments you receive under a decree of divorce or separate maintenance.

Nontaxable combat pay. If you were a member of the U.S. Armed Forces, compensation includes any nontaxable combat pay you received. This amount should be reported in box 12 of your 2013 Form W-2 with code Q.

Table 1-1. **Compensation for Purposes
of an IRA**

Includes ...	Does not include ...
wages, salaries, etc.	earnings and profits from property.
commissions.	interest and dividend income.
self-employment income.	pension or annuity income.
alimony and separate maintenance.	deferred compensation.
nontaxable combat pay.	income from certain partnerships.
	any amounts you exclude from income.

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What Is Not Compensation?

Compensation does not include any of the following items.

- Earnings and profits from property, such as rental income, interest income, and dividend income.
- Pension or annuity income.
- Deferred compensation received (compensation payments postponed from a past year).
- Income from a partnership for which you do not provide services that are a material income-producing factor.
- Conservation Reserve Program (CRP) payments reported on Schedule SE (Form 1040), line 1b.
- Any amounts (other than combat pay) you exclude from income, such as foreign earned income and housing costs.

When Can a Traditional IRA Be Opened?

You can open a traditional IRA at any time. However, the time for making contributions for any year is limited. See *When Can Contributions Be Made*, later.

How Can a Traditional IRA Be Opened?

You can open different kinds of IRAs with a variety of organizations. You can open an IRA at a bank or other financial institution or with a mutual fund or life insurance company. You can also open an IRA through your stockbroker. Any IRA must meet Internal Revenue Code requirements. The requirements for the various arrangements are discussed below.

Kinds of traditional IRAs. Your traditional IRA can be an individual retirement account or annuity. It can be part of either a simplified employee pension (SEP) or an employer or employee association trust account.

Individual Retirement Account

An individual retirement account is a trust or custodial account set up in the United States for the exclusive benefit of you or your beneficiaries. The account is created by a written document. The document must show that the account meets all of the following requirements.

- The trustee or custodian must be a bank, a federally insured credit union, a savings and loan association, or an entity approved by the IRS to act as trustee or custodian.
- The trustee or custodian generally cannot accept contributions of more than the deductible amount for the year. However, rollover contributions and employer contributions to a simplified employee pension (SEP) can be more than this amount.
- Contributions, except for rollover contributions, must be in cash. See Rollovers, later.

- You must have a nonforfeitable right to the amount at all times.
- Money in your account cannot be used to buy a life insurance policy.
- Assets in your account cannot be combined with other property, except in a common trust fund or common investment fund.
- You must start receiving distributions by April 1 of the year following the year in which you reach age 70½. See When Must You Withdraw Assets? (Required Minimum Distributions), later.

Individual Retirement Annuity

You can open an individual retirement annuity by purchasing an annuity contract or an endowment contract from a life insurance company.

An individual retirement annuity must be issued in your name as the owner, and either you or your beneficiaries who survive you are the only ones who can receive the benefits or payments.

An individual retirement annuity must meet all the following requirements.

- Your entire interest in the contract must be nonforfeitable.
- The contract must provide that you cannot transfer any portion of it to any person other than the issuer.
- There must be flexible premiums so that if your compensation changes, your payment can also change. This provision applies to contracts issued after November 6, 1978.
- The contract must provide that contributions cannot be more than the deductible amount for an IRA for the year, and that you must use any refunded premiums to pay for future premiums or to buy more benefits before the end of the calendar year after the year in which you receive the refund.
- Distributions must begin by April 1 of the year following the year in which you reach age 70½. See *When Must You Withdraw*

Assets? (Required Minimum Distributions), later.

Individual Retirement Bonds

The sale of individual retirement bonds issued by the federal government was suspended after April 30, 1982. The bonds have the following features.

- They stop earning interest when you reach age 70½. If you die, interest will stop 5 years after your death, or on the date you would have reached age 70½, whichever is earlier.
- You cannot transfer the bonds.

If you cash (redeem) the bonds before the year in which you reach age 59½, you may be subject to a 10% additional tax. See Age 59½ Rule under *Early Distributions*, later. You can roll over redemption proceeds into IRAs.

Simplified Employee Pension (SEP)

A simplified employee pension (SEP) is a written arrangement that allows your

employer to make deductible contributions to a traditional IRA (a SEP IRA) set up for you to receive such contributions. Generally, distributions from SEP IRAs are subject to the withdrawal and tax rules that apply to traditional IRAs. See Publication 560 for more information about SEPs.

Employer and Employee Association Trust Accounts

Your employer or your labor union or other employee association can set up a trust to provide individual retirement accounts for employees or members. The requirements for individual retirement accounts apply to these traditional IRAs.

Required Disclosures

The trustee or issuer (sometimes called the sponsor) of your traditional IRA generally must give you a disclosure statement at least 7 days before you open your IRA. However, the sponsor does not have to give you the statement until the date you open (or purchase, if earlier) your IRA, provided you

are given at least 7 days from that date to revoke the IRA.

The disclosure statement must explain certain items in plain language. For example, the statement should explain when and how you can revoke the IRA, and include the name, address, and telephone number of the person to receive the notice of cancellation. This explanation must appear at the beginning of the disclosure statement.

If you revoke your IRA within the revocation period, the sponsor must return to you the entire amount you paid. The sponsor must report on the appropriate IRS forms both your contribution to the IRA (unless it was made by a trustee-to-trustee transfer) and the amount returned to you. These requirements apply to all sponsors.

How Much Can Be Contributed?

There are limits and other rules that affect the amount that can be contributed to a

traditional IRA. These limits and rules are explained below.

Community property laws. Except as discussed later under *Kay Bailey Hutchison Spousal IRA Limit*, each spouse figures his or her limit separately, using his or her own compensation. This is the rule even in states with community property laws.

Brokers' commissions. Brokers' commissions paid in connection with your traditional IRA are subject to the contribution limit. For information about whether you can deduct brokers' commissions, see *Brokers' commissions*, later, under *How Much Can You Deduct*.

Trustees' fees. Trustees' administrative fees are not subject to the contribution limit. For information about whether you can deduct trustees' fees, see *Trustees' fees*, later, under *How Much Can You Deduct*.

Qualified reservist repayments. If you were a member of a reserve component and you were ordered or called to active duty after September 11, 2001, you may be able

to contribute (repay) to an IRA amounts equal to any qualified reservist distributions (defined later under *Early Distributions*) you received. You can make these repayment contributions even if they would cause your total contributions to the IRA to be more than the general limit on contributions. To be eligible to make these repayment contributions, you must have received a qualified reservist distribution from an IRA or from a section 401(k) or 403(b) plan or a similar arrangement.

Limit. Your qualified reservist repayments cannot be more than your qualified reservist distributions, explained under *Early Distributions*, later.

When repayment contributions can be made. You cannot make these repayment contributions later than the date that is 2 years after your active duty period ends.

No deduction. You cannot deduct qualified reservist repayments.

Reserve component. The term “reserve component” means the:

- Army National Guard of the United States,
- Army Reserve,
- Naval Reserve,
- Marine Corps Reserve,
- Air National Guard of the United States,
- Air Force Reserve,
- Coast Guard Reserve, or
- Reserve Corps of the Public Health Service.

Figuring your IRA deduction. The repayment of qualified reservist distributions does not affect the amount you can deduct as an IRA contribution.

Reporting the repayment. If you repay a qualified reservist distribution, include the amount of the repayment with nondeductible contributions on line 1 of Form 8606.

Example. In 2013, your IRA contribution limit is \$5,500. However, because of your filing status and AGI, the limit on the amount

you can deduct is \$3,500. You can make a nondeductible contribution of \$2,000 (\$5,500 - \$3,500). In an earlier year you received a \$3,000 qualified reservist distribution, which you would like to repay this year.

For 2013, you can contribute a total of \$8,500 to your IRA. This is made up of the maximum deductible contribution of \$3,500; a nondeductible contribution of \$2,000; and a \$3,000 qualified reservist repayment. You contribute the maximum allowable for the year. Since you are making a nondeductible contribution (\$2,000) and a qualified reservist repayment (\$3,000), you must file Form 8606 with your return and include \$5,000 (\$2,000 + \$3,000) on line 1 of Form 8606. The qualified reservist repayment is not deductible.



Contributions on your behalf to a traditional IRA reduce your limit for contributions to a Roth IRA. See chapter 2 for information about Roth IRAs.

General Limit

For 2013, the most that can be contributed to your traditional IRA generally is the smaller of the following amounts:

- \$5,500 (\$6,500 if you are age 50 or older), or
- Your taxable compensation (defined earlier) for the year.

Note. This limit is reduced by any contributions to a section 501(c)(18) plan (generally, a pension plan created before June 25, 1959, that is funded entirely by employee contributions).

This is the most that can be contributed regardless of whether the contributions are to one or more traditional IRAs or whether all or part of the contributions are nondeductible. (See Nondeductible Contributions, later.) Qualified reservist repayments do not affect this limit.

Examples. George, who is 34 years old and single, earns \$24,000 in 2013. His IRA contributions for 2013 are limited to \$5,500.

Danny, an unmarried college student working part time, earns \$3,500 in 2013. His IRA contributions for 2013 are limited to \$3,500, the amount of his compensation.

More than one IRA. If you have more than one IRA, the limit applies to the total contributions made on your behalf to all your traditional IRAs for the year.

Annuity or endowment contracts. If you invest in an annuity or endowment contract under an individual retirement annuity, no more than \$5,500 (\$6,500 if you are age 50 or older) can be contributed toward its cost for the tax year, including the cost of life insurance coverage. If more than this amount is contributed, the annuity or endowment contract is disqualified.

Kay Bailey Hutchison Spousal IRA Limit

For 2013, if you file a joint return and your taxable compensation is less than that of your spouse, the most that can be contributed for the year to your IRA is the smaller of the following two amounts:

1. \$5,500 (\$6,500 if you are age 50 or older), or
2. The total compensation includible in the gross income of both you and your spouse for the year, reduced by the following two amounts.
 - a. Your spouse's IRA contribution for the year to a traditional IRA.
 - b. Any contributions for the year to a Roth IRA on behalf of your spouse.

This means that the total combined contributions that can be made for the year to your IRA and your spouse's IRA can be as much as \$11,000 (\$12,000 if only one of you is age 50 or older or \$13,000 if both of you are age 50 or older).

Note. This traditional IRA limit is reduced by any contributions to a section 501(c)(18) plan (generally, a pension plan created before June 25, 1959, that is funded entirely by employee contributions).

Example. Kristin, a full-time student with no taxable compensation, marries Carl during

the year. Neither of them was age 50 by the end of 2013. For the year, Carl has taxable compensation of \$30,000. He plans to contribute (and deduct) \$5,500 to a traditional IRA. If he and Kristin file a joint return, each can contribute \$5,500 to a traditional IRA. This is because Kristin, who has no compensation, can add Carl's compensation, reduced by the amount of his IRA contribution ($\$30,000 - \$5,500 = \$24,500$), to her own compensation (-0-) to figure her maximum contribution to a traditional IRA. In her case, \$5,500 is her contribution limit, because \$5,500 is less than \$24,500 (her compensation for purposes of figuring her contribution limit).

Filing Status

Generally, except as discussed earlier under *Kay Bailey Hutchison Spousal IRA Limit*, your filing status has no effect on the amount of allowable contributions to your traditional IRA. However, if during the year either you or your spouse was covered by a retirement plan at work, your deduction may be reduced or eliminated, depending on your filing status

and income. See *How Much Can You Deduct*, later.

Example. Tom and Darcy are married and both are 53. They both work and each has a traditional IRA. Tom earned \$3,800 and Darcy earned \$48,000 in 2013. Because of the Kay Bailey Hutchison Spousal IRA limit rule, even though Tom earned less than \$6,500, they can contribute up to \$6,500 to his IRA for 2013 if they file a joint return. They can contribute up to \$6,500 to Darcy's IRA. If they file separate returns, the amount that can be contributed to Tom's IRA is limited by his earned income, \$3,800.

Less Than Maximum Contributions

If contributions to your traditional IRA for a year were less than the limit, you cannot contribute more after the due date of your return for that year to make up the difference.

Example. Rafael, who is 40, earns \$30,000 in 2013. Although he can contribute up to \$5,500 for 2013, he contributes only \$3,000. After April 15, 2014, Rafael cannot make up

the difference between his actual contributions for 2013 (\$3,000) and his 2013 limit (\$5,500). He cannot contribute \$2,500 more than the limit for any later year.

More Than Maximum Contributions

If contributions to your IRA for a year were more than the limit, you can apply the excess contribution in one year to a later year if the contributions for that later year are less than the maximum allowed for that year. However, a penalty or additional tax may apply. See *Excess Contributions*, later, under *What Acts Result in Penalties or Additional Taxes*.

When Can Contributions Be Made?

As soon as you open your traditional IRA, contributions can be made to it through your chosen sponsor (trustee or other administrator). Contributions must be in the form of money (cash, check, or money order). Property cannot be contributed.

Although property cannot be contributed, your IRA may invest in certain property. For example, your IRA may purchase shares of stock. For other restrictions on the use of funds in your IRA, see *Prohibited Transactions*, later in this chapter. You may be able to transfer or roll over certain property from one retirement plan to another. See the discussion of rollovers and other transfers later in this chapter under *Can You Move Retirement Plan Assets*.



You can make a contribution to your IRA by having your income tax refund (or a portion of your refund), if any, paid directly to your traditional IRA, Roth IRA, or SEP IRA. For details, see the instructions for your income tax return or Form 8888, Allocation of Refund (Including Savings Bond Purchases).

Contributions can be made to your traditional IRA for each year that you receive compensation and have not reached age 70½. For any year in which you do not work, contributions cannot be made to your IRA unless you receive alimony, nontaxable

combat pay, military differential pay, or file a joint return with a spouse who has compensation. See *Who Can Open a Traditional IRA*, earlier. Even if contributions cannot be made for the current year, the amounts contributed for years in which you did qualify can remain in your IRA. Contributions can resume for any years that you qualify.

Contributions must be made by due date.

Contributions can be made to your traditional IRA for a year at any time during the year or by the due date for filing your return for that year, not including extensions. For most people, this means that contributions for 2013 must be made by April 15, 2014, and contributions for 2014 must be made by April 15, 2015.

Age 70½ rule. Contributions cannot be made to your traditional IRA for the year in which you reach age 70½ or for any later year.

You attain age 70½ on the date that is 6 calendar months after the 70th anniversary of your birth. If you were born on or before June

30, 1943, you cannot contribute for 2013 or any later year.

Designating year for which contribution is made. If an amount is contributed to your traditional IRA between January 1 and April 15, you should tell the sponsor which year (the current year or the previous year) the contribution is for. If you do not tell the sponsor which year it is for, the sponsor can assume, and report to the IRS, that the contribution is for the current year (the year the sponsor received it).

Filing before a contribution is made. You can file your return claiming a traditional IRA contribution before the contribution is actually made. Generally, the contribution must be made by the due date of your return, not including extensions.

Contributions not required. You do not have to contribute to your traditional IRA for every tax year, even if you can.

How Much Can You Deduct?

Generally, you can deduct the lesser of:

- The contributions to your traditional IRA for the year, or
- The general limit (or the Kay Bailey Hutchison Spousal IRA limit, if applicable) explained earlier under *How Much Can Be Contributed*.

However, if you or your spouse was covered by an employer retirement plan, you may not be able to deduct this amount. See *Limit if Covered by Employer Plan*, later.



You may be able to claim a credit for contributions to your traditional IRA. For more information, see chapter 4.

Trustees' fees. Trustees' administrative fees that are billed separately and paid in connection with your traditional IRA are not deductible as IRA contributions. However, they may be deductible as a miscellaneous itemized deduction on Schedule A (Form 1040). For information about miscellaneous itemized deductions, see Publication 529, *Miscellaneous Deductions*.

Brokers' commissions. These commissions are part of your IRA contribution and, as such, are deductible subject to the limits.

Full deduction. If neither you nor your spouse was covered for any part of the year by an employer retirement plan, you can take a deduction for total contributions to one or more of your traditional IRAs of up to the lesser of:

- \$5,500 (\$6,500 if you are age 50 or older), or
- 100% of your compensation.

This limit is reduced by any contributions made to a 501(c)(18) plan on your behalf.

Kay Bailey Hutchison Spousal IRA. In the case of a married couple with unequal compensation who file a joint return, the deduction for contributions to the traditional IRA of the spouse with less compensation is limited to the lesser of:

1. \$5,500 (\$6,500 if the spouse with the lower compensation is age 50 or older), or

2. The total compensation includible in the gross income of both spouses for the year reduced by the following three amounts.
 - a. The IRA deduction for the year of the spouse with the greater compensation.
 - b. Any designated nondeductible contribution for the year made on behalf of the spouse with the greater compensation.
 - c. Any contributions for the year to a Roth IRA on behalf of the spouse with the greater compensation.

This limit is reduced by any contributions to a section 501(c)(18) plan on behalf of the spouse with the lesser compensation.

Note. If you were divorced or legally separated (and did not remarry) before the end of the year, you cannot deduct any contributions to your spouse's IRA. After a divorce or legal separation, you can deduct only the contributions to your own IRA. Your

deductions are subject to the rules for single individuals.

Covered by an employer retirement plan.

If you or your spouse was covered by an employer retirement plan at any time during the year for which contributions were made, your deduction may be further limited. This is discussed later under *Limit if Covered by Employer Plan*. Limits on the amount you can deduct do not affect the amount that can be contributed.

Are You Covered by an Employer Plan?

The Form W-2 you receive from your employer has a box used to indicate whether you were covered for the year. The “Retirement Plan” box should be checked if you were covered.

Reservists and volunteer firefighters should also see *Situations in Which You Are Not Covered*, later.

If you are not certain whether you were covered by your employer's retirement plan, you should ask your employer.

Federal judges. For purposes of the IRA deduction, federal judges are covered by an employer plan.

For Which Year(s) Are You Covered?

Special rules apply to determine the tax years for which you are covered by an employer plan. These rules differ depending on whether the plan is a defined contribution plan or a defined benefit plan.

Tax year. Your tax year is the annual accounting period you use to keep records and report income and expenses on your income tax return. For almost all people, the tax year is the calendar year.

Defined contribution plan. Generally, you are covered by a defined contribution plan for a tax year if amounts are contributed or allocated to your account for the plan year that ends with or within that tax year.

However, also see *Situations in Which You Are Not Covered*, later.

A defined contribution plan is a plan that provides for a separate account for each person covered by the plan. In a defined contribution plan, the amount to be contributed to each participant's account is spelled out in the plan. The level of benefits actually provided to a participant depends on the total amount contributed to that participant's account and any earnings and losses on those contributions. Types of defined contribution plans include profit-sharing plans, stock bonus plans, and money purchase pension plans.

Example. Company A has a money purchase pension plan. Its plan year is from July 1 to June 30. The plan provides that contributions must be allocated as of June 30. Bob, an employee, leaves Company A on December 31, 2012. The contribution for the plan year ending on June 30, 2013, is made February 15, 2014. Because an amount is contributed to Bob's account for the plan year, Bob is covered by the plan for his 2013 tax year.

A special rule applies to certain plans in which it is not possible to determine if an amount

will be contributed to your account for a given plan year. If, for a plan year, no amounts have been allocated to your account that are attributable to employer contributions, employee contributions, or forfeitures, by the last day of the plan year, and contributions are discretionary for the plan year, you are not covered for the tax year in which the plan year ends. If, after the plan year ends, the employer makes a contribution for that plan year, you are covered for the tax year in which the contribution is made.

Example. Mickey was covered by a profit-sharing plan and left the company on December 31, 2012. The plan year runs from July 1 to June 30. Under the terms of the plan, employer contributions do not have to be made, but if they are made, they are contributed to the plan before the due date for filing the company's tax return. Such contributions are allocated as of the last day of the plan year, and allocations are made to the accounts of individuals who have any service during the plan year. As of June 30, 2013, no contributions were made that were allocated to the June 30, 2013, plan year, and

no forfeitures had been allocated within the plan year. In addition, as of that date, the company was not obligated to make a contribution for such plan year and it was impossible to determine whether or not a contribution would be made for the plan year. On December 31, 2013, the company decided to contribute to the plan for the plan year ending June 30, 2013. That contribution was made on February 15, 2014. Mickey is an active participant in the plan for his 2014 tax year but not for his 2013 tax year.

No vested interest. If an amount is allocated to your account for a plan year, you are covered by that plan even if you have no vested interest in (legal right to) the account.

Defined benefit plan. If you are eligible to participate in your employer's defined benefit plan for the plan year that ends within your tax year, you are covered by the plan. This rule applies even if you:

- Declined to participate in the plan,
- Did not make a required contribution, or

- Did not perform the minimum service required to accrue a benefit for the year.

A defined benefit plan is any plan that is not a defined contribution plan. In a defined benefit plan, the level of benefits to be provided to each participant is spelled out in the plan. The plan administrator figures the amount needed to provide those benefits and those amounts are contributed to the plan. Defined benefit plans include pension plans and annuity plans.

Example. Nick, an employee of Company B, is eligible to participate in Company B's defined benefit plan, which has a July 1 to June 30 plan year. Nick leaves Company B on December 31, 2012. Because Nick is eligible to participate in the plan for its year ending June 30, 2013, he is covered by the plan for his 2013 tax year.

No vested interest. If you accrue a benefit for a plan year, you are covered by that plan even if you have no vested interest in (legal right to) the accrual.

Situations in Which You Are Not Covered

Unless you are covered by another employer plan, you are not covered by an employer plan if you are in one of the situations described below.

Social security or railroad retirement.

Coverage under social security or railroad retirement is not coverage under an employer retirement plan.

Benefits from previous employer's plan.

If you receive retirement benefits from a previous employer's plan, you are not covered by that plan.

Reservists. If the only reason you participate in a plan is because you are a member of a reserve unit of the Armed Forces, you may not be covered by the plan. You are not covered by the plan if both of the following conditions are met.

1. The plan you participate in is established for its employees by:
 - a. The United States,

- b. A state or political subdivision of a state, or
 - c. An instrumentality of either (a) or (b) above.
- 2. You did not serve more than 90 days on active duty during the year (not counting duty for training).

Volunteer firefighters. If the only reason you participate in a plan is because you are a volunteer firefighter, you may not be covered by the plan. You are not covered by the plan if both of the following conditions are met.

- 1. The plan you participate in is established for its employees by:
 - a. The United States,
 - b. A state or political subdivision of a state, or
 - c. An instrumentality of either (a) or (b) above.
- 2. Your accrued retirement benefits at the beginning of the year will not

provide more than \$1,800 per year at retirement.

Limit if Covered by Employer Plan

As discussed earlier, the deduction you can take for contributions made to your traditional IRA depends on whether you or your spouse was covered for any part of the year by an employer retirement plan. Your deduction is also affected by how much income you had and by your filing status. Your deduction may also be affected by social security benefits you received.

Reduced or no deduction. If either you or your spouse was covered by an employer retirement plan, you may be entitled to only a partial (reduced) deduction or no deduction at all, depending on your income and your filing status.

Your deduction begins to decrease (phase out) when your income rises above a certain amount and is eliminated altogether when it reaches a higher amount. These amounts vary depending on your filing status.

To determine if your deduction is subject to the phase-out, you must determine your modified adjusted gross income (AGI) and your filing status, as explained later under *Deduction Phaseout*. Once you have determined your modified AGI and your filing status, you can use Table 1-2 or Table 1-3 to determine if the phaseout applies.

Social Security Recipients

Instead of using Table 1-2 or Table 1-3 and Worksheet 1-2, Figuring Your Reduced IRA Deduction for 2013, later, complete the worksheets in Appendix B of this publication if, for the year, all of the following apply.

- You received social security benefits.
- You received taxable compensation.
- Contributions were made to your traditional IRA.
- You or your spouse was covered by an employer retirement plan.

Table 1-2. **Effect of Modified AGI¹ on Deduction if You Are Covered by a Retirement Plan at Work**

If you are covered by a retirement plan at work, use this table to determine if your modified AGI affects the amount of your deduction.

IF your filing status is ...	AND your modified adjusted gross income (modified AGI) is ...	THEN you can take ...
single or head of household	\$59,000 or less	a full deduction.
	more than \$59,000 but less than \$69,000	a partial deduction.
	\$69,000 or more	no deduction.
married filing jointly or qualifying widow(er)	\$95,000 or less	a full deduction.
	more than \$95,000 but less than \$115,000	a partial deduction.
	\$115,000 or more	no deduction.
married filing separately²	less than \$10,000	a partial deduction.
	\$10,000 or more	no deduction.

¹ Modified AGI (adjusted gross income). See [Modified adjusted gross income \(AGI\)](#), later.

² If you did not live with your spouse at any time during the year, your filing status is considered Single for this purpose (therefore, your IRA deduction is determined under the “Single” filing status).

Table 1-3. **Effect of Modified AGI¹ on Deduction if You Are NOT Covered by a Retirement Plan at Work**

If you are not covered by a retirement plan at work, use this table to determine if your modified AGI affects the amount of your deduction.

IF your filing status is ...	AND your modified adjusted gross income (modified AGI) is ...	THEN you can take ...
single, head of household, or qualifying widow(er)	any amount	a full deduction.
married filing jointly or separately with a spouse who <i>is not</i> covered by a plan at work	any amount	a full deduction.
married filing jointly with a spouse who <i>is</i> covered by a plan at work	\$178,000 or less	a full deduction.
	more than \$178,000 but less than \$188,000	a partial deduction.
	\$188,000 or more	no deduction.
married filing separately with a spouse who <i>is</i> covered by a plan at work ²	less than \$10,000	a partial deduction.
	\$10,000 or more	no deduction.

¹ Modified AGI (adjusted gross income). See [Modified adjusted gross income \(AGI\)](#), later.

² You are entitled to the full deduction if you did not live with your spouse at any time during the year.

Use the worksheets in Appendix B to figure your IRA deduction, your nondeductible contribution, and the taxable portion, if any, of your social security benefits. Appendix B includes an example with filled-in worksheets to assist you.



For 2014, if you are not covered by a retirement plan at work and you are married filing jointly with a spouse who is covered by a plan at work, your deduction is phased out if your modified AGI is more than \$181,000 but less than \$191,000. If your AGI is \$191,000 or more, you cannot take a deduction for a contribution to a traditional IRA.

Deduction Phaseout

The amount of any reduction in the limit on your IRA deduction (phaseout) depends on whether you or your spouse was covered by an employer retirement plan.

Covered by a retirement plan. If you are covered by an employer retirement plan and you did not receive any social security retirement benefits, your IRA deduction may

be reduced or eliminated depending on your filing status and modified AGI, as shown in Table 1-2.



For 2014, if you are covered by a retirement plan at work, your IRA deduction will not be reduced (phased out) unless your modified AGI is:

- *More than \$60,000 but less than \$70,000 for a single individual (or head of household),*
- *More than \$96,000 but less than \$116,000 for a married couple filing a joint return (or a qualifying widow(er)), or*
- *Less than \$10,000 for a married individual filing a separate return.*

If your spouse is covered. If you are not covered by an employer retirement plan, but your spouse is, and you did not receive any social security benefits, your IRA deduction may be reduced or eliminated entirely depending on your filing status and modified AGI as shown in Table 1-3.

Filing status. Your filing status depends primarily on your marital status. For this purpose, you need to know if your filing status is single or head of household, married filing jointly or qualifying widow(er), or married filing separately. If you need more information on filing status, see Publication 501, Exemptions, Standard Deduction, and Filing Information.

Lived apart from spouse. If you did not live with your spouse at any time during the year and you file a separate return, your filing status, for this purpose, is single.

Modified adjusted gross income (AGI). You can use Worksheet 1-1 to figure your modified AGI. If you made contributions to your IRA for 2013 and received a distribution from your IRA in 2013, see *Both contributions for 2013 and distributions in 2013*, later.



Do not assume that your modified AGI is the same as your compensation. Your modified AGI may include income in addition to your compensation (discussed earlier) such as

interest, dividends, and income from IRA distributions.

Form 1040. If you file Form 1040, refigure the amount on the page 1 “adjusted gross income” line without taking into account any of the following amounts.

- IRA deduction.
- Student loan interest deduction.
- Tuition and fees deduction.
- Domestic production activities deduction.
- Foreign earned income exclusion.
- Foreign housing exclusion or deduction.
- Exclusion of qualified savings bond interest shown on Form 8815.
- Exclusion of employer-provided adoption benefits shown on Form 8839.

This is your modified AGI.

Form 1040A. If you file Form 1040A, refigure the amount on the page 1 “adjusted gross income” line without taking into account any of the following amounts.

- IRA deduction.
- Student loan interest deduction.
- Tuition and fees deduction.
- Exclusion of qualified savings bond interest shown on Form 8815.

This is your modified AGI.

Form 1040NR. If you file Form 1040NR, refigure the amount on the page 1 “adjusted gross income” line without taking into account any of the following amounts.

- IRA deduction.
- Student loan interest deduction.
- Domestic production activities deduction.
- Exclusion of qualified savings bond interest shown on Form 8815.
- Exclusion of employer-provided adoption benefits shown on Form 8839.

This is your modified AGI.

Income from IRA distributions. If you received distributions in 2013 from one or


more traditional IRAs and your traditional IRAs include only deductible contributions, the distributions are fully taxable and are included in your modified AGI.

Both contributions for 2013 and distributions in 2013. If all three of the following apply, any IRA distributions you received in 2013 may be partly tax free and partly taxable.

- You received distributions in 2013 from one or more traditional IRAs,
- You made contributions to a traditional IRA for 2013, and
- Some of those contributions may be nondeductible contributions. (See *Nondeductible Contributions* and Worksheet 1-2, later.)

If this is your situation, you must figure the taxable part of the traditional IRA distribution before you can figure your modified AGI. To do this, you can use Worksheet 1-5, later.

Worksheet 1-1. **Figuring Your Modified AGI**

Keep for Your Records 

Use this worksheet to figure your modified AGI for traditional IRA purposes.

1.	Enter your adjusted gross income (AGI) from Form 1040, line 38; Form 1040A, line 22; or Form 1040NR, line 37, figured without taking into account the amount from Form 1040, line 32; Form 1040A, line 17; or Form 1040NR, line 32	1.	_____
2.	Enter any student loan interest deduction from Form 1040, line 33; Form 1040A, line 18; or Form 1040NR, line 33	2.	_____
3.	Enter any tuition and fees deduction from Form 1040, line 34, or Form 1040A, line 19	3.	_____
4.	Enter any domestic production activities deduction from Form 1040, line 35, or Form 1040NR, line 34	4.	_____
5.	Enter any foreign earned income exclusion and/or housing exclusion from Form 2555, line 45, or Form 2555-EZ, line 18	5.	_____
6.	Enter any foreign housing deduction from Form 2555, line 50	6.	_____
7.	Enter any excludable savings bond interest from Form 8815, line 14	7.	_____
8.	Enter any excluded employer-provided adoption benefits from Form 8839, line 28	8.	_____
9.	Add lines 1 through 8. This is your Modified AGI for traditional IRA purposes	9.	_____

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If at least one of the above does not apply, figure your modified AGI using Worksheet 1-1, later.

How To Figure Your Reduced IRA Deduction

If you or your spouse is covered by an employer retirement plan and you did not receive any social security benefits, you can figure your reduced IRA deduction by using Worksheet 1-2. Figuring Your Reduced IRA Deduction for 2013. The Instructions for Form 1040, Form 1040A, and Form 1040NR include similar worksheets that you can use instead of the worksheet in this publication.

If you or your spouse is covered by an employer retirement plan, and you received any social security benefits, see *Social Security Recipients*, earlier.

Note. If you were married and both you and your spouse contributed to IRAs, figure your deduction and your spouse's deduction separately.

Reporting Deductible Contributions

If you file Form 1040, enter your IRA deduction on line 32 of that form. If you file Form 1040A, enter your IRA deduction on line 17 of that form. If you file Form 1040NR, enter your IRA deduction on line 32 of that form. You cannot deduct IRA contributions on Form 1040EZ or Form 1040NR-EZ.

Self-employed. If you are self-employed (a sole proprietor or partner) and have a SIMPLE IRA, enter your deduction for allowable plan contributions on Form 1040, line 28. If you file Form 1040NR, enter your deduction on line 28 of that form.

Nondeductible Contributions

Although your deduction for IRA contributions may be reduced or eliminated, contributions can be made to your IRA of up to the general limit or, if it applies, the Kay Bailey Hutchison Spousal IRA limit. The difference between your total permitted contributions and your IRA deduction, if any, is your nondeductible contribution.

Example. Tony is 29 years old and single. In 2013, he was covered by a retirement plan at work. His salary is \$62,000. His modified AGI is \$70,000. Tony makes a \$5,500 IRA contribution for 2013. Because he was covered by a retirement plan and his modified AGI is above \$69,000, he cannot deduct his \$5,500 IRA contribution. He must designate this contribution as a nondeductible contribution by reporting it on Form 8606.

Repayment of reservist distributions.

Nondeductible contributions may include repayments of qualified reservist distributions. For more information, see *Qualified reservist repayments* under *How Much Can Be Contributed*, earlier.

Form 8606. To designate contributions as nondeductible, you must file Form 8606. (See the filled-in Forms 8606 in this chapter.)

You do not have to designate a contribution as nondeductible until you file your tax return. When you file, you can even designate otherwise deductible contributions as nondeductible contributions.

You must file Form 8606 to report nondeductible contributions even if you do not have to file a tax return for the year.



A Form 8606 is not used for the year that you make a rollover from a qualified retirement plan to a traditional IRA and the rollover includes nontaxable amounts. In those situations, a Form 8606 is completed for the year you take a distribution from that IRA. See Form 8606 under Distributions Fully or Partly Taxable, later.

Failure to report nondeductible contributions. If you do not report nondeductible contributions, all of the contributions to your traditional IRA will be treated like deductible contributions when withdrawn. All distributions from your IRA will be taxed unless you can show, with satisfactory evidence, that nondeductible contributions were made.

Penalty for overstatement. If you overstate the amount of nondeductible contributions on your Form 8606 for any tax year, you must pay a penalty of \$100 for

each over-statement, unless it was due to reasonable cause.

Penalty for failure to file Form 8606. You will have to pay a \$50 penalty if you do not file a required Form 8606, unless you can prove that the failure was due to reasonable cause.

Tax on earnings on nondeductible contributions. As long as contributions are within the contribution limits, none of the earnings or gains on contributions (deductible or nondeductible) will be taxed until they are distributed.

Cost basis. You will have a cost basis in your traditional IRA if you made any nondeductible contributions. Your cost basis is the sum of the nondeductible contributions to your IRA minus any withdrawals or distributions of nondeductible contributions.



Commonly, distributions from your traditional IRAs will include both taxable and nontaxable (cost basis) amounts. See Are Distributions Taxable, later, for more information.



Recordkeeping. There is a recordkeeping worksheet, Appendix A. Summary Record of Traditional IRA(s) for 2013, that you can use to keep a record of deductible and nondeductible IRA contributions.

Examples — Worksheet for Reduced IRA Deduction for 2013

The following examples illustrate the use of Worksheet 1-2, Figuring Your Reduced IRA Deduction for 2013.

Example 1. For 2013, Tom and Betty file a joint return on Form 1040. They are both 39 years old. They are both employed and Tom is covered by his employer's retirement plan. Tom's salary is \$59,000 and Betty's is \$32,555. They each have a traditional IRA and their combined modified AGI, which includes \$5,000 interest and dividend income, is \$96,555. Because their modified AGI is between \$95,000 and \$115,000 and Tom is covered by an employer plan, Tom is subject to the deduction phaseout discussed earlier under Limit if Covered by Employer Plan.

For 2013, Tom contributed \$5,500 to his IRA and Betty contributed \$5,500 to hers. Even though they file a joint return, they must use separate worksheets to figure the IRA deduction for each of them.

Tom can take a deduction of only \$5,080.

He can choose to treat the \$5,080 as either deductible or nondeductible contributions. He can either leave the \$420 ($\$5,500 - \$5,080$) of nondeductible contributions in his IRA or withdraw them by April 15, 2014. He decides to treat the \$5,080 as deductible contributions and leave the \$420 of nondeductible contributions in his IRA.

Using Worksheet 1-2, Figuring Your Reduced IRA Deduction for 2013, Tom figures his deductible and nondeductible amounts as shown on Worksheet 1-2. Figuring Your Reduced IRA Deduction for 2013—Example 1 Illustrated.

Betty figures her IRA deduction as follows. Betty can treat all or part of her contributions as either deductible or nondeductible. This is because her \$5,500 contribution for 2013 is

not subject to the deduction phaseout discussed earlier under *Limit if Covered by Employer Plan*. She does not need to use Worksheet 1-2, Figuring Your Reduced IRA Deduction for 2013, because their modified AGI is not within the phaseout range that applies. Betty decides to treat her \$5,500 IRA contributions as deductible.

The IRA deductions of \$5,080 and \$5,500 on the joint return for Tom and Betty total \$10,580.

Example 2. For 2013, Ed and Sue file a joint return on Form 1040. They are both 39 years old. Ed is covered by his employer's retirement plan. Ed's salary is \$45,000. Sue had no compensation for the year and did not contribute to an IRA. Sue is not covered by an employer plan. Ed contributed \$5,500 to his traditional IRA and \$5,500 to a traditional IRA for Sue (a Kay Bailey Hutchison Spousal IRA). Their combined modified AGI, which includes \$2,000 interest and dividend income and a large capital gain from the sale of stock, is \$180,555.

Because the combined modified AGI is \$115,000 or more, Ed cannot deduct any of the contribution to his traditional IRA. He can either leave the \$5,500 of nondeductible contributions in his IRA or withdraw them by April 15, 2014.

Sue figures her IRA deduction as shown on Worksheet 1-2. Figuring Your Reduced IRA Deduction for 2013—Ex-ample 2 Illustrated.

What if You Inherit an IRA?

If you inherit a traditional IRA, you are called a beneficiary. A beneficiary can be any person or entity the owner chooses to receive the benefits of the IRA after he or she dies.

Beneficiaries of a traditional IRA must include in their gross income any taxable distributions they receive.

Inherited from spouse. If you inherit a traditional IRA from your spouse, you generally have the following three choices. You can:

1. Treat it as your own IRA by designating yourself as the account owner.
2. Treat it as your own by rolling it over into your IRA, or to the extent it is taxable, into a:
 - a. Qualified employer plan,
 - b. Qualified employee annuity plan (section 403(a) plan),
 - c. Tax-sheltered annuity plan (section 403(b) plan),
 - d. Deferred compensation plan of a state or local government (section 457 plan), or
3. Treat yourself as the beneficiary rather than treating the IRA as your own.

Worksheet 1-2. Figuring Your Reduced IRA Deduction for 2013

Keep for Your Records 

(Use only if you or your spouse is covered by an employer plan and your modified AGI falls between the two amounts shown below for your coverage situation and filing status.)

Note. If you were married and both you and your spouse contributed to IRAs, figure your deduction and your spouse's deduction separately.

IF you ...	AND your filing status is ...	AND your modified AGI is over ...	THEN enter on line 1 below ...
are covered by an employer plan	single or head of household	\$59,000	\$69,000
	married filing jointly or qualifying widow(er)	\$95,000	\$115,000
	married filing separately	\$0	\$10,000
are not covered by an employer plan, but your spouse is covered	married filing jointly	\$178,000	\$188,000
	married filing separately	\$0	\$10,000

1. Enter applicable amount from table above

1.

2. Enter your **modified AGI** (that of both spouses, if married filing jointly)

2.

Note. If line 2 is equal to or more than the amount on line 1, **stop here.** Your IRA contributions are not deductible. See [Nondeductible Contributions](#), earlier.

3. Subtract line 2 from line 1. **If line 3 is \$10,000 or more (\$20,000 or more if married filing jointly or qualifying widow(er) and you are covered by an employer plan), stop here.** You can take a full IRA deduction for contributions of up to \$5,500 (\$6,500 if you are age 50 or older) or 100% of your (and if married filing jointly, your spouse's) compensation, whichever is less

3.

4. Multiply line 3 by the percentage below that applies to you. If the result is not a multiple of \$10, round it to the next highest multiple of \$10. (For example, \$611.40 is rounded to \$620.) However, if the result is less than \$200, enter \$200.

• Married filing jointly or qualifying widow(er) **and** you are covered by an employer plan, multiply line 3 by 27.5% (.275) (by 32.5% (.325) if you are age 50 or older).

• All others, multiply line 3 by 55% (.55) (by 65% (.65) if you are age 50 or older).

4.

5. Enter your compensation minus any deductions on Form 1040 or Form 1040NR, line 27 (deductible part of self-employment tax) and line 28 (self-employed SEP, SIMPLE, and qualified plans). If you are filing a joint return and your compensation is less than your spouse's, include your spouse's compensation reduced by his or her traditional IRA and Roth IRA contributions for this year. If you file Form 1040 or Form 1040NR, do not reduce your compensation by any losses from self-employment

5.

6. Enter contributions made, or to be made, to your IRA for 2013, but **do not** enter more than \$5,500 (\$6,500 if you are age 50 or older). If contributions are more than \$5,500 (\$6,500 if you are age 50 or older), see [Excess Contributions](#), later.

6.

7. **IRA deduction.** Compare lines 4, 5, and 6. Enter the smallest amount (or a smaller amount if you choose) here and on the Form 1040, 1040A, or 1040NR line for your IRA, whichever applies. If line 6 is more than line 7 and you want to make a nondeductible contribution, go to line 8

7.

8. **Nondeductible contribution.** Subtract line 7 from line 5 or 6, whichever is smaller. Enter the result here and on line 1 of your Form 8606

8.

89

Worksheet 1-2. Figuring Your Reduced IRA Deduction for 2013—Example 1 Illustrated

(Use only if you or your spouse is covered by an employer plan and your modified AGI falls between the two amounts shown below for your coverage situation and filing status.)

Note. If you were married and both you and your spouse contributed to IRAs, figure your deduction and your spouse's deduction separately.

IF you ...	AND your filing status is ...	AND your modified AGI is over ...	THEN enter on line 1 below ...
are covered by an employer plan	single or head of household	\$59,000	\$69,000
	married filing jointly or qualifying widow(er)	\$95,000	\$115,000
	married filing separately	\$0	\$10,000
are not covered by an employer plan, but your spouse is covered	married filing jointly	\$178,000	\$188,000
	married filing separately	\$0	\$10,000

1. Enter applicable amount from table above

1.

115,000

2. Enter your **modified AGI** (that of both spouses, if married filing jointly)

2.

96,555

Note. If line 2 is equal to or more than the amount on line 1, **stop here.** Your IRA contributions are not deductible. See [Nondeductible Contributions](#), earlier.

3. Subtract line 2 from line 1. **If line 3 is \$10,000 or more (\$20,000 or more if married filing jointly or qualifying widow(er) and you are covered by an employer plan), stop here.** You can take a full IRA deduction for contributions of up to \$5,500 (\$6,500 if you are age 50 or older) or 100% of your (and if married filing jointly, your spouse's) compensation, whichever is less

3.

18,445

4. Multiply line 3 by the percentage below that applies to you. If the result is not a multiple of \$10, round it to the next highest multiple of \$10. (For example, \$611.40 is rounded to \$620.) However, if the result is less than \$200, enter \$200.

• Married filing jointly or qualifying widow(er) **and** you are covered by an employer plan, multiply line 3 by 27.5% (.275) (by 32.5% (.325) if you are age 50 or older).

• All others, multiply line 3 by 55% (.55) (by 65% (.65) if you are age 50 or older).

4.

5,080

5. Enter your compensation minus any deductions on Form 1040 or Form 1040NR, line 27 (deductible part of self-employment tax) and line 28 (self-employed SEP, SIMPLE, and qualified plans). If you are filing a joint return and your compensation is less than your spouse's, include your spouse's compensation reduced by his or her traditional IRA and Roth IRA contributions for this year. If you file Form 1040 or Form 1040NR, do not reduce your compensation by any losses from self-employment

5.

59,000

6. Enter contributions made, or to be made, to your IRA for 2013, but **do not** enter more than \$5,500 (\$6,500 if you are age 50 or older). If contributions are more than \$5,500 (\$6,500 if you are age 50 or older), see [Excess Contributions](#), later.

6.

5,500

7. **IRA deduction.** Compare lines 4, 5, and 6. Enter the smallest amount (or a smaller amount if you choose) here and on the Form 1040, 1040A, or 1040NR line for your IRA, whichever applies. If line 6 is more than line 7 and you want to make a nondeductible contribution, go to line 8

7.

5,080

8. **Nondeductible contribution.** Subtract line 7 from line 5 or 6, whichever is smaller. Enter the result here and on line 1 of your Form 8606

8.

420

90

Worksheet 1-2. Figuring Your Reduced IRA Deduction for 2013—Example 2 Illustrated

(Use only if you or your spouse is covered by an employer plan and your modified AGI falls between the two amounts shown below for your coverage situation and filing status.)

Note. If you were married and both you and your spouse contributed to IRAs, figure your deduction and your spouse's deduction separately.

IF you ...	AND your filing status is ...	AND your modified AGI is over ...	THEN enter on line 1 below ...
are covered by an employer plan	single or head of household	\$59,000	\$69,000
	married filing jointly or qualifying widow(er)	\$95,000	\$115,000
	married filing separately	\$0	\$10,000
are not covered by an employer plan, but your spouse is covered	married filing jointly	\$178,000	\$188,000
	married filing separately	\$0	\$10,000

1. Enter applicable amount from table above

1.

188,000

2. Enter your **modified AGI** (that of both spouses, if married filing jointly)

2.

180,555

Note. If line 2 is equal to or more than the amount on line 1, **stop here.** Your IRA contributions are not deductible. See [Nondeductible Contributions](#), earlier.

3. Subtract line 2 from line 1. **If line 3 is \$10,000 or more (\$20,000 or more if married filing jointly or qualifying widow(er) and you are covered by an employer plan), stop here.** You can take a full IRA deduction for contributions of up to \$5,500 (\$6,500 if you are age 50 or older) or 100% of your (and if married filing jointly, your spouse's) compensation, whichever is less

3.

7,445

4. Multiply line 3 by the percentage below that applies to you. If the result is not a multiple of \$10, round it to the next highest multiple of \$10. (For example, \$611.40 is rounded to \$620.) However, if the result is less than \$200, enter \$200.

• Married filing jointly or qualifying widow(er) **and** you are covered by an employer plan, multiply line 3 by 27.5% (.275) (by 32.5% (.325) if you are age 50 or older).

• All others, multiply line 3 by 55% (.55) (by 65% (.65) if you are age 50 or older).

4.

4,100

5. Enter your compensation minus any deductions on Form 1040 or Form 1040NR, line 27 (deductible part of self-employment tax) and line 28 (self-employed SEP, SIMPLE, and qualified plans). If you are filing a joint return and your compensation is less than your spouse's, include your spouse's compensation reduced by his or her traditional IRA and Roth IRA contributions for this year. If you file Form 1040 or Form 1040NR, do not reduce your compensation by any losses from self-employment

5.

39,500

6. Enter contributions made, or to be made, to your IRA for 2013, but **do not** enter more than \$5,500 (\$6,500 if you are age 50 or older). If contributions are more than \$5,500 (\$6,500 if you are age 50 or older), see [Excess Contributions](#), later.

6.

5,500

7. **IRA deduction.** Compare lines 4, 5, and 6. Enter the smallest amount (or a smaller amount if you choose) here and on the Form 1040, 1040A, or 1040NR line for your IRA, whichever applies. If line 6 is more than line 7 and you want to make a nondeductible contribution, go to line 8

7.

4,100

8. **Nondeductible contribution.** Subtract line 7 from line 5 or 6, whichever is smaller. Enter the result here and on line 1 of your Form 8606

8.

1,400

91

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