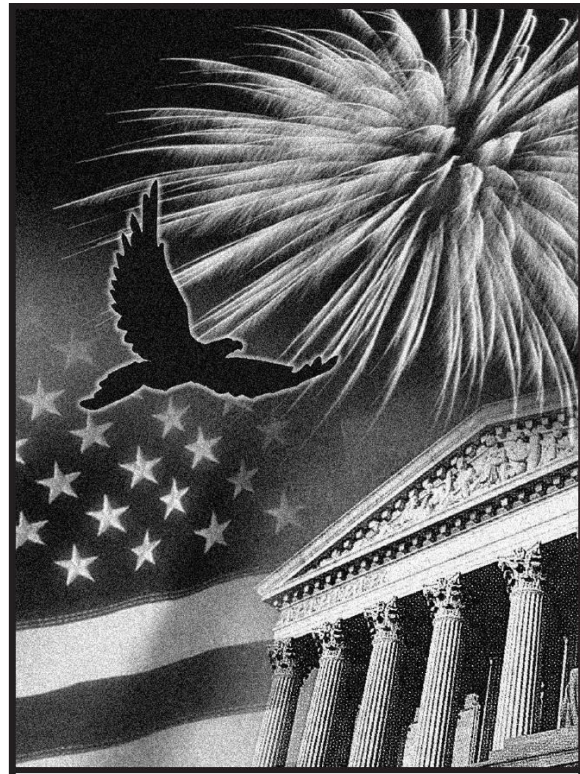


# Publication 590-A

## Contributions to Individual Retirement Arrangements (IRAs)

For use in preparing **2023** Returns

Volume 2 of 3



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# **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 the owner 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.

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), or
  - d. Deferred compensation plan of a state or local government (section 457 plan).
3. Treat yourself as the beneficiary rather than treating the IRA as your own.

**Treating it as your own.** You will be considered to have chosen to treat the IRA as your own if:

- Contributions (including rollover contributions) are made to the inherited IRA, or
- You don't take the required minimum distribution for a year as a beneficiary of the IRA.

You will only be considered to have chosen to treat the IRA as your own if:

- You are the sole beneficiary of the IRA, and

- You have an unlimited right to withdraw amounts from it.

However, if you receive a distribution from your deceased spouse's IRA, you can roll that distribution over into your own IRA within the 60-day time limit, as long as the distribution isn't a required distribution, even if you aren't the sole beneficiary of your deceased spouse's IRA. For more information, see *When Must You Withdraw Assets? (Required Minimum Distributions)* in Pub. 590-B for more information on required minimum distributions.

## **Inherited From Someone Other Than Spouse**

If you inherit a traditional IRA from anyone other than your deceased spouse, you can't treat the inherited IRA as your own. This means that you can't make any contributions to the IRA. It also means you can't roll over any amounts into or out of the inherited IRA.

However, you can make a trustee-to-trustee transfer as long as the IRA into which amounts are being moved is set up and maintained in the name of the deceased IRA owner for the benefit of you as beneficiary. See Pub. 590-B for more information.

Like the original owner, you generally won't owe tax on the assets in the IRA until you receive distributions from it. You must begin receiving distributions from the IRA under the rules for distributions that apply to beneficiaries.

**More information.** For more information about rollovers, required distributions, and inherited IRAs, see:

- [Rollovers](#), later, under Can You Move Retirement Plan Assets;
- *When Must You Withdraw Assets? (Required Minimum Distributions)* in Pub. 590-B; and

- *IRA Beneficiaries under When Must You Withdraw Assets? (Required Minimum Distributions)* in Pub. 590-B.

## **Can You Move Retirement Plan Assets?**

You can transfer, tax free, assets (money or property) from other retirement programs (including traditional IRAs) to a traditional IRA. You can make the following kinds of transfers.

- Transfers from one trustee to another.
- Rollovers.
- Transfers incident to a divorce.

This chapter discusses all three kinds of transfers.

**Transfers to Roth IRAs.** Under certain conditions, you can move assets from a traditional IRA or from a designated Roth account to a Roth IRA. For more information

about these transfers, see [Converting From Any Traditional IRA Into a Roth IRA](#), later in this chapter, and [Can You Move Amounts Into a Roth IRA?](#) in chapter 2.

***Transfers to Roth IRAs from other retirement plans.*** Under certain conditions, you can move assets from a qualified retirement plan to a Roth IRA. For more information, see [Can You Move Amounts Into a Roth IRA?](#) in chapter 2.

## **Trustee-to-Trustee Transfer**

A transfer of funds in your traditional IRA from one trustee directly to another, either at your request or at the trustee's request, isn't a rollover. This includes the situation where the current trustee issues a check to the new trustee but gives it to you to deposit. Because there is no distribution to you, the transfer is tax free. Because it isn't a rollover, it isn't affected by the 1-year waiting period required between rollovers. This waiting period is



discussed later under [\*Rollover From One IRA Into Another\*](#).

For information about direct transfers from retirement programs other than traditional IRAs, see [\*Direct rollover option\*](#), later.

## **Rollovers**

Generally, a rollover is a tax-free distribution to you of cash or other assets from one retirement plan that you contribute to another retirement plan within 60 days you received the payment or distribution. The contribution to the second retirement plan is called a rollover contribution.

**Note.** An amount rolled over tax free from one retirement plan to another is generally includible in income when it is distributed from the second plan.

### **Kinds of rollovers to a traditional IRA.**

You can roll over amounts from the following plans into a traditional IRA.

- A traditional IRA.
- An employer's qualified retirement plan for its employees.
- A deferred compensation plan of a state or local government (section 457 plan).
- A tax-sheltered annuity plan (section 403(b) plan). Also, see Table 1-4.

Table 1-4. **Rollover Chart**

The following chart indicates the rollovers that are permitted between various types of plans.

Roll To									
Roll From		Roth IRA	Traditional IRA	SIMPLE IRA	SEP IRA	Govern-mental 457(b) Plan	Qualified Plan <sup>1</sup> (pre-tax)	403(b) Plan (pre-tax)	Designated Roth Account (401(k), 403(b), or 457(b))
	Roth IRA	Yes <sup>2</sup>	No	No	No	No	No	No	No
	Traditional IRA	Yes <sup>3</sup>	Yes <sup>2</sup>	Yes, <sup>2,7</sup> after 2 years	Yes <sup>2</sup>	Yes <sup>4</sup>	Yes	Yes	No
	SIMPLE IRA	Yes, <sup>3</sup> after 2 years	Yes, <sup>2</sup> after 2 years	Yes <sup>2</sup>	Yes, <sup>2</sup> after 2 years	Yes, <sup>4</sup> after 2 years	Yes, after 2 years	Yes, after 2 years	No
	SEP IRA	Yes <sup>3</sup>	Yes <sup>2</sup>	Yes, <sup>2,7</sup> after 2 years	Yes <sup>2</sup>	Yes <sup>4</sup>	Yes	Yes	No
	Govern-mental 457(b) Plan	Yes <sup>3</sup>	Yes	Yes, <sup>7</sup> after 2 years	Yes	Yes	Yes	Yes	Yes, <sup>3,5</sup>
	Qualified Plan <sup>1</sup> (pre-tax)	Yes <sup>3</sup>	Yes	Yes, <sup>7</sup> after 2 years	Yes	Yes <sup>4</sup>	Yes	Yes	Yes, <sup>3,5</sup>
	403(b) Plan (pre-tax)	Yes <sup>3</sup>	Yes	Yes, <sup>7</sup> after 2 years	Yes	Yes <sup>4</sup>	Yes	Yes	Yes, <sup>3,5</sup>
	Designated Roth Account (401(k), 403(b), or 457(b))	Yes	No	No	No	No	No	No	Yes <sup>6</sup>
<p><sup>1</sup> Qualified plans include, for example, profit-sharing, 401(k), money purchase, and defined benefit plans.</p> <p><sup>2</sup> Only one rollover in any 12-month period.</p> <p><sup>3</sup> Must include in income.</p> <p><sup>4</sup> Must have separate accounts.</p> <p><sup>5</sup> Must be an in-plan rollover.</p> <p><sup>6</sup> Any nontaxable amounts distributed must be rolled over by direct trustee-to-trustee transfer.</p> <p><sup>7</sup> Applies to rollover contributions after December 18, 2015. For more information regarding retirement plans and rollovers, go to <a href="#">Tax Information for Retirement Plans</a>.</p>									

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**Treatment of rollovers.** You can't deduct a rollover contribution, but you must report the rollover distribution on your tax return as discussed later under [Reporting roll-overs from IRAs](#) and [Reporting rollovers from employer plans](#).

**Rollover notice.** A written explanation of rollover treatment must be given to you by the plan (other than an IRA) making the distribution. See [Written explanation to recipients](#), later, for more details.

### **Kinds of rollovers from a traditional IRA.**

You may be able to roll over, tax free, a distribution from your traditional IRA into a qualified plan. These plans include the Federal Thrift Savings Plan (for federal employees), deferred compensation plans of state or local governments (section 457 plans), and tax-sheltered annuity plans (section 403(b) plans). The part of the distribution that you can roll over is the part that would otherwise be taxable (includible in your income).

Qualified plans may, but aren't required to, accept such rollovers.

***Tax treatment of a rollover from a traditional IRA to an eligible retirement plan other than an IRA.*** Ordinarily, when you have basis in your IRAs, any distribution is considered to include both nontaxable and taxable amounts. Without a special rule, the nontaxable portion of such a distribution couldn't be rolled over. However, a special rule treats a distribution you roll over into an eligible retirement plan as including only otherwise taxable amounts if the amount you either leave in your IRAs or don't roll over is at least equal to your basis. The effect of this special rule is to make the amount in your traditional IRAs that you can roll over to an eligible retirement plan as large as possible.

***Eligible retirement plans.*** The following are considered eligible retirement plans.

- IRAs.

- Qualified trusts.
- Qualified employee annuity plans under section 403(a).
- Deferred compensation plans of state and local governments (section 457 plans).
- Tax-sheltered annuities (section 403(b) annuities).

## **Time Limit for Making a Rollover Contribution**

You must generally make the rollover contribution by the 60th day after the day you receive the distribution from your traditional IRA or your employer's plan.

***Example.*** You received an eligible rollover distribution from your traditional IRA on June 30, 2023, that you intend to roll over to your 403(b) plan. To postpone including the distribution in your income, you must complete the rollover by August 29, 2023, the 60th day following June 30.

The IRS may waive the 60-day requirement where the failure to do so would be against equity or good conscience, such as in the event of a casualty, disaster, or other event beyond your reasonable control. For exceptions to the 60-day period, see [Ways to get a waiver of the 60-day rollover requirement](#), later.

***Plan loan offset.*** A plan loan offset is the amount your employer plan account balance is reduced, or offset, to repay a loan from the plan. How long you have to complete the rollover of a plan loan offset depends on what kind of plan loan offset you have. For tax years beginning after December 31, 2017, if you have a qualified plan loan offset, you will have until the due date (including extensions) for your tax return for the tax year in which the offset occurs to complete your rollover. A qualified plan loan offset occurs when a plan loan in good standing is offset because your employer plan terminates, or because you



sever from employment. If your plan loan offset occurs for any other reason, then you have 60 days from the date the offset occurs to complete your rollover.

**Rollovers completed after the 60-day period.** In the absence of a waiver, amounts not rolled over within the 60-day period don't qualify for tax-free rollover treatment. You must treat them as a taxable distribution from either your IRA or your employer's plan. These amounts are taxable in the year distributed, even if the 60-day period expires in the next year. You may also have to pay a 10% additional tax on early distributions as discussed under *Early Distributions* in Pub. 590-B.

Unless there is a waiver or an extension of the 60-day rollover period, any contribution you make to your IRA more than 60 days after the distribution is a regular contribution, not a rollover contribution.

**Example.** You received a distribution in late December 2023 from a traditional IRA that you don't roll over into another traditional IRA within the 60-day limit. You don't qualify for a waiver. This distribution is taxable in 2023 even though the 60-day limit wasn't up until 2024.

**Ways to get a waiver of the 60-day rollover requirement.** There are three ways to obtain a waiver of the 60-day rollover requirement.

- You qualify for an automatic waiver.
- You self-certify that you met the requirements of a waiver.
- You request and receive a private letter ruling granting a waiver.

**How do you qualify for an automatic waiver?** You qualify for an automatic waiver if all of the following apply.

- The financial institution receives the funds on your behalf before the end of the 60-day rollover period.
- You followed all of the procedures set by the financial institution for depositing the funds into an IRA or other eligible retirement plan within the 60-day rollover
- period (including giving instructions to deposit the funds into a plan or IRA).
- The funds aren't deposited into a plan or IRA within the 60-day rollover period solely because of an error on the part of the financial institution.
- The funds are deposited into a plan or IRA within 1 year from the beginning of the 60-day rollover period.
- It would have been a valid rollover if the financial institution had deposited the funds as instructed.

If you don't qualify for an automatic waiver, you can use the self-certification procedure to make a late rollover contribution or you can apply to the IRS for a waiver of the 60-day rollover requirement.

**How do you self-certify that you qualify for a waiver?** Pursuant to Revenue

Procedure 2020-46 in Internal Revenue Bulletin 2020-45, available at [IRB 2020-45](#), you may make a written certification to a plan administrator or an IRA trustee that you missed the 60-day rollover contribution deadline because of one or more of the reasons listed in Revenue Procedure 2020-46. A plan administrator or an IRA trustee may rely on the certification in accepting and reporting receipt of the rollover contribution. You may make the certification by using the model letter in the appendix to the revenue procedure or by using a letter that is substantially similar. There is no IRS fee for self-certification. A copy of the certification

should be kept in your files and be available if requested on audit.

**Note.** A self-certification is not a waiver by the IRS of the 60-day rollover requirement. If the IRS subsequently audits your income tax return, it may determine that you do not qualify for a waiver, in which case you may owe additional taxes and penalties.

**How do you apply for a waiver and what is the fee?** You can request a ruling according to the procedures outlined in Revenue Procedure 2003-16 and Revenue Procedure 2024-4. The appropriate user fee of \$12,500 must accompany every request for a waiver of the 60-day rollover requirement (see the user fee chart in Appendix A of Revenue Procedure 2024-4).

**How does the IRS determine whether to grant a waiver in a private letter ruling?** In determining whether to issue a favorable letter ruling granting a waiver, the IRS will

consider all of the relevant facts and circumstances, including:

- Whether errors were made by the financial institution, that is, the plan administrator, or IRA trustee, issuer, or custodian;
- Whether you were unable to complete the rollover within the 60-day period due to death, disability, hospitalization, incarceration, serious illness, restrictions imposed by a foreign country, or postal error;
- Whether you used the amount distributed; and
- How much time has passed since the date of the distribution.

**Note.** The IRS can waive only the 60-day rollover requirement and not the other requirements for a valid rollover contribution. For example, the IRS can't waive the IRA one-rollover-per-year rule.

For more information on waivers of the 60-day rollover requirement, go to [RetirementPlans-FAQs](#).

**Amount.** The rules regarding the amount that can be rolled over within the 60-day time period also apply to the amount that can be deposited due to a waiver. For example, if you received \$6,000 from your IRA, the most that you can deposit into an eligible retirement plan due to a waiver is \$6,000.

**Extension of rollover period.** If an amount distributed to you from a traditional IRA or a qualified employer retirement plan is a frozen deposit at any time during the 60-day period allowed for a rollover, two special rules extend the rollover period.

- The period during which the amount is a frozen deposit isn't counted in the 60-day period.

- The 60-day period can't end earlier than 10 days after the deposit is no longer frozen.

***Frozen deposit.*** This is any deposit that can't be withdrawn from a financial institution because of either of the following reasons.

- The financial institution is bankrupt or insolvent.
- The state where the institution is located restricts withdrawals because one or more financial institutions in the state are (or are about to be) bankrupt or insolvent.

## **Rollover From One IRA Into Another**

You can withdraw, tax free, all or part of the assets from one traditional IRA if you reinvest them within 60 days in the same or another traditional IRA. Because this is a rollover, you can't deduct the amount that you reinvest in an IRA.





*You may be able to treat a contribution made to one type of IRA as having been made to a different type of IRA. This is called recharacterizing the contribution. See [Recharacterizations](#) in this chapter for more information.*

### **Waiting period between rollovers.**

Generally, if you make a tax-free rollover of any part of a distribution from a traditional IRA, you can't, within a 1-year period, make a tax-free rollover of any later distribution from that same IRA. You also can't make a tax-free rollover of any amount distributed, within the same 1-year period, from the IRA into which you made the tax-free rollover.

The 1-year period begins on the date you receive the IRA distribution, not on the date you roll it over into an IRA. Rules apply to the number of rollovers you can have with your traditional IRAs. See [Application of one-roll-over-per-year limitation](#), later.

**Example.** You have two traditional IRAs, IRA-1 and IRA-2. In 2023, you made a tax-free rollover of a distribution from IRA-1 into a new traditional IRA (IRA-3). You can't, within 1 year of the distribution from IRA-1, make a tax-free rollover of any distribution from either IRA-1 or IRA-3 into another traditional IRA.

For 2023, the rollover from IRA-1 into IRA-3 prevents you from making a tax-free rollover from IRA-2 into any other traditional IRA. This is because in 2023 you are only allowed to make one rollover within a 1-year period. So when you make a rollover from IRA-1 to IRA-3, you can't make a rollover from IRA-2 to any other traditional IRA.

**Exception.** An IRA distribution made from a failed financial institution by the Federal Deposit Insurance Corporation as receiver is not treated as a rollover for purposes of the one-rollover-per-year limitation, provided:

1. Neither the failed financial institution nor the depositor initiated the distribution, and
2. No financial institution has assumed the IRAs of the failed financial institution.

**Application of one-rollover-per-year limitation.** You can make only one rollover from an IRA to another (or the same) IRA in any 1-year period regardless of the number of IRAs you own. The limit will apply by aggregating all of an individual's IRAs, including SEP and SIMPLE IRAs as well as traditional and Roth IRAs, effectively treating them as one IRA for purposes of the limit. However, trustee-to-trustee transfers between IRAs aren't limited and rollovers from traditional IRAs to Roth IRAs (conversions) aren't limited.

**Example.** You have three traditional IRAs: IRA-1, IRA-2, and IRA-3. You didn't take any distributions from your IRAs in 2023. On

January 1, 2024, you took a distribution from IRA-1 and rolled it over into IRA-2 on the same day. For 2024, you can't roll over any other 2024 IRA distribution, including a rollover distribution involving IRA-3. This wouldn't apply to a conversion.

**The same property must be rolled over.** If property is distributed to you from an IRA and you complete the rollover by contributing property to an IRA, your rollover is tax free only if the property you contribute is the same property that was distributed to you.

**Partial rollovers.** If you withdraw assets from a traditional IRA, you can roll over part of the withdrawal tax free and keep the rest of it. The amount you keep will generally be taxable (except for the part that is a return of nondeductible contributions). The amount you keep may be subject to the 10% additional tax on early distributions discussed later under [\*What Acts Result in Penalties or Additional Taxes\*](#).

**Required distributions.** Amounts that must be distributed during a particular year under the required distribution rules (discussed in Pub. 590-B) aren't eligible for rollover treatment.

**Inherited IRAs.** If you inherit a traditional IRA from your spouse, you can generally roll it over, or you can choose to make the inherited IRA your own as discussed earlier under [\*What if You Inherit an IRA\*](#).

**Reporting rollovers from IRAs.** Report any rollover from one traditional IRA to the same or another traditional IRA on Form 1040, 1040-SR, or 1040-NR, lines 4a and 4b.

Enter the total amount of the distribution on Form 1040, 1040-SR, or 1040-NR, line 4a. If the total amount on Form 1040, 1040-SR, or 1040-NR, line 4a, was rolled over, enter zero on Form 1040, 1040-SR, or 1040-NR, line 4b. If the total distribution wasn't rolled over, enter the taxable portion of the part that

wasn't rolled over on Form 1040, 1040-SR, or 1040-NR, line 4b. Enter "Rollover" next to line 4b. See your tax return instructions.

If you rolled over the distribution into a qualified plan (other than an IRA) or you make the rollover in 2024, attach a statement explaining what you did.

For information on how to figure the taxable portion, see *Are Distributions Taxable?* in Pub. 590-B.

## **Rollover From Employer's Plan Into an IRA**

You can roll over into a traditional IRA all or part of an eligible rollover distribution you receive from your (or your deceased spouse's):

- Employer's qualified pension, profit-sharing, or stock bonus plan;
- Annuity plan;

- Tax-sheltered annuity plan (section 403(b) plan); or
- Governmental deferred compensation plan (section 457 plan).

A qualified plan is one that meets the requirements of the Internal Revenue Code.

**Eligible rollover distribution.** Generally, an eligible rollover distribution is any distribution of all or part of the balance to your credit in a qualified retirement plan except the following.

1. A required minimum distribution (explained under *When Must You Withdraw Assets? (Required Minimum Distributions)* in Pub. 590-B).
2. A hardship distribution.
3. Any of a series of substantially equal periodic distributions paid at least once a year over:
  - a. Your lifetime or life expectancy,

- b. The lifetimes or life expectancies of you and your beneficiary, or
  - c. A period of 10 years or more.
- 4. Corrective distributions of excess contributions or excess deferrals, and any income allocable to the excess, or of excess annual additions and any allocable gains.
- 5. A loan treated as a distribution because it doesn't satisfy certain requirements either when made or later (such as upon default), unless the participant's accrued benefits are reduced (offset) to repay the loan. See the discussion earlier of plan loan offsets (including qualified plan loan offsets) under [\*Time Limit for Making a Rollover Contribution\*](#).
- 6. Dividends on employer securities.
- 7. The cost of life insurance coverage.



Your rollover into a traditional IRA may include both amounts that would be taxable and amounts that wouldn't be taxable if they were distributed to you, but not rolled over. To the extent the distribution is rolled over into a traditional IRA, it isn't includible in your income.



*Any nontaxable amounts that you roll over into your traditional IRA become part of your basis (cost) in your IRAs. To recover your basis when you take distributions from your IRA, you must complete Form 8606 for the year of the distribution. See Form 8606 under Distributions Fully or Partly Taxable in Pub. 590-B.*

**Rollover by nonspouse beneficiary.** If you are a designated beneficiary (other than a surviving spouse) of a deceased employee, you can roll over all or part of an eligible rollover distribution from one of the types of plans listed above into a traditional IRA. You

must make the rollover by a direct trustee-to-trustee transfer into an inherited IRA.

You will determine your required minimum distributions in years after you make the rollover based on whether the employee died before his or her required beginning date for taking distributions from the plan. For more information, see *Distributions after the employee's death* under *Tax on Excess Accumulation* in Pub. 575.

**Written explanation to recipients.** Before making an eligible rollover distribution, the administrator of a qualified retirement plan must provide you with a written explanation. It must tell you about all of the following.

- Your right to have the distribution paid tax free directly to a traditional IRA or another eligible retirement plan.
- The requirement to withhold tax from the distribution if it isn't paid directly to a

traditional IRA or another eligible retirement plan.

- The tax treatment of any part of the distribution that you roll over to a traditional IRA or another eligible retirement plan within 60 days after you receive the distribution.
- Other qualified retirement plan rules, if they apply, including those for lump-sum distributions, alternate payees, and cash or deferred arrangements.
- How the plan receiving the distribution differs from the plan making the distribution in its restrictions and tax consequences.

The plan administrator must provide you with this written explanation no earlier than 90 days and no later than 30 days before the distribution is made.

However, you can choose to have a distribution made less than 30 days after the

explanation is provided as long as both of the following requirements are met.

- You are given at least 30 days after the notice is provided to consider whether you want to elect a direct rollover.
- You are given information that clearly states that you have this 30-day period to make the decision.

Contact the plan administrator if you have any questions regarding this information.

**Withholding requirement.** Generally, if an eligible rollover distribution is paid directly to you, the payer must withhold 20% of it. This applies even if you plan to roll over the distribution to a traditional IRA. You can avoid withholding by choosing the [direct rollover option](#), discussed later.

**Exceptions.** The payer doesn't have to withhold from an eligible rollover distribution

paid to you if either of the following conditions applies.

- The distribution and all previous eligible rollover distributions you received during your tax year from the same plan (or, at the payer's option, from all your employer's plans) total less than \$200.
- The distribution consists solely of employer securities, plus cash of \$200 or less in lieu of fractional shares.



*The amount withheld is part of the distribution. If you roll over less than the full amount of the distribution, you may have to include in your income the amount you don't roll over. However, you can make up the amount withheld with funds from other sources.*

**Other withholding rules.** The 20% withholding requirement doesn't apply to distributions that aren't eligible rollover distributions. However, other withholding

rules apply to these distributions. The rules that apply depend on whether the distribution is a periodic distribution or a nonperiodic distribution. For either of these types of distributions, you can still choose not to have tax withheld. For more information, see Pub. 505.

**Direct rollover option.** Your employer's qualified plan must give you the option to have any part of an eligible rollover distribution paid directly to a traditional IRA. The plan isn't required to give you this option if your eligible rollover distributions are expected to total less than \$200 for the year.

***Withholding.*** If you choose the direct rollover option, no tax is withheld from any part of the designated distribution that is directly paid to the trustee of the traditional IRA. If any part is paid to you, the payer must withhold 20% of that part's taxable amount.

**Choosing an option.** [Table 1-5](#) may help you decide which distribution option to choose. Carefully compare the effects of each option.

**Table 1-5. Comparison of Payment to You Versus Direct Rollover**

<b>Affected item</b>	<b>Result of a payment to you</b>	<b>Result of a direct rollover</b>
Withholding	The payer must withhold 20% of the taxable part.	There is no withholding.
Additional tax	If you are under age 59½, a 10% additional tax may apply to the taxable part (including an amount equal to the tax withheld)	There is no 10% additional tax. See Early Distributions in Pub. 590-B.

	that isn't rolled over.	
When to report as income	Any taxable part (including the taxable part of any amount withheld) not rolled over is income to you in the year paid.	Any taxable part isn't income to you until later distributed to you from the IRA.



*If you decide to roll over any part of a distribution, the direct rollover option will generally be to your advantage. This is because you won't have 20% withholding or be subject to the 10% additional tax under that option.*

*If you have a lump-sum distribution and don't plan to roll over any part of it, the distribution may be eligible for special tax treatment that could lower your tax for the distribution year. In that case, you may want to see Pub. 575*



*and Form 4972, Tax on Lump-Sum Distributions, and its instructions to determine whether your distribution qualifies for special tax treatment and, if so, to figure your tax under the special methods.*

*You can then compare any advantages from using Form 4972 to figure your tax on the lump-sum distribution with any advantages from rolling over all or part of the distribution. However, if you roll over any part of the lump-sum distribution, you can't use the Form 4972 special tax treatment for any part of the distribution.*

**Contributions you made to your employer's plan.** You can roll over a distribution of voluntary deductible employee contributions (DECs) you made to your employer's plan. Prior to January 1, 1987, employees could make and deduct these contributions to certain qualified employers' plans and government plans. These aren't the same as an employee's elective contributions

to a 401(k) plan, which aren't deductible by the employee.

If you receive a distribution from your employer's qualified plan of any part of the balance of your DEC's and the earnings from them, you can roll over any part of the distribution.

**No waiting period between rollovers.** The once-a-year limit on IRA-to-IRA rollovers doesn't apply to eligible rollover distributions from an employer plan. You can roll over more than one distribution from the same employer plan within a year.

**IRA as a holding account (conduit IRA) for rollovers to other eligible plans.** If you receive an eligible rollover distribution from your employer's plan, you can roll over part or all of it into one or more conduit IRAs. You can later roll over those assets into a new employer's plan. You can use a traditional IRA as a conduit IRA. You can roll over part or all

of the conduit IRA to a qualified plan, even if you make regular contributions to it or add funds from sources other than your employer's plan. However, if you make regular contributions to the conduit IRA or add funds from other sources, the qualified plan into which you move funds won't be eligible for any optional tax treatment for which it might have otherwise qualified.

**Property and cash received in a distribution.** If you receive both property and cash in an eligible rollover distribution, you can roll over part or all of the property, part or all of the cash, or any combination of the two that you choose.

***The same property (or sales proceeds) must be rolled over.*** If you receive property in an eligible rollover distribution from a qualified retirement plan, you can't keep the property and contribute cash to a traditional IRA in place of the property. You must either

roll over the property or sell it and roll over the proceeds, as explained next.

**Sale of property received in a distribution from a qualified plan.** Instead of rolling over a distribution of property other than cash, you can sell all or part of the property and roll over the amount you receive from the sale (the proceeds) into a traditional IRA. You can't keep the property and substitute your own funds for property you received.

**Example.** You receive a total distribution from your employer's plan consisting of \$10,000 cash and \$15,000 worth of property. You decide to keep the property. You can roll over to a traditional IRA the \$10,000 cash received, but you can't roll over an additional \$15,000 representing the value of the property you choose not to sell.

**Treatment of gain or loss.** If you sell the distributed property and roll over all the proceeds into a traditional IRA, no gain or

loss is recognized. The sale proceeds (including any increase in value) are treated as part of the distribution and aren't included in your gross income.

**Example.** On September 6 you received a lump-sum distribution from your employer's retirement plan of \$50,000 in cash and \$50,000 in stock. The stock wasn't stock of your employer. On September 24, you sold the stock for \$60,000. On October 6, you rolled over \$110,000 in cash (\$50,000 from the original distribution and \$60,000 from the sale of stock). You don't include the \$10,000 gain from the sale of stock as part of your income because you rolled over the entire amount into a traditional IRA.

**Note.** Special rules may apply to distributions of employer securities. For more information, see *Figuring the Taxable Amount* under *Taxation of Nonperiodic Payments* in Pub. 575.

**Partial rollover.** If you received both cash and property, or just property, but didn't roll over the entire distribution, see *Rollovers* in Pub. 575.

**Life insurance contract.** You can't roll over a life insurance contract from a qualified plan into a traditional IRA.

**Distributions received by a surviving spouse.** If you receive an [eligible rollover distribution](#) (defined earlier) from your deceased spouse's [eligible retirement plan](#) (defined earlier), you can roll over part or all of it into a traditional IRA. You can also roll over all or any part of a distribution of DEC's.

**Distributions under divorce or similar proceedings (alternate payees).** If you are the spouse or former spouse of an employee and you receive a distribution from a qualified retirement plan as a result of divorce or similar proceedings, you may be able to roll

over all or part of it into a traditional IRA. To qualify, the distribution must be:

- One that would have been an [eligible rollover distribution](#) (defined earlier) if it had been made to the employee, and
- Made under a qualified domestic relations order.

***Qualified domestic relations order.*** A domestic relations order is a judgment, decree, or order (including approval of a property settlement agreement) that is issued under the domestic relations law of a state. A “qualified domestic relations order” gives to an alternate payee (a spouse, former spouse, child, or dependent of a participant in a retirement plan) the right to receive all or part of the benefits that would be payable to a participant under the plan. The order requires certain specific information, and it can’t alter the amount or form of the benefits of the plan.

***Tax treatment if all of an eligible distribution isn't rolled over.*** Any part of an eligible rollover distribution that you keep is taxable in the year you receive it. If you don't roll over any of it, special rules for lump-sum distributions may apply. See *Lump-Sum Distributions* under *Taxation of Nonperiodic Payments* in Pub. 575. The 10% additional tax on early distributions, discussed later under [\*What Acts Result in Penalties or Additional Taxes\*](#), doesn't apply.

**Keogh plans and rollovers.** If you are self-employed, you are generally treated as an employee for rollover purposes. Consequently, if you receive an eligible rollover distribution from a Keogh plan (a qualified plan with at least one self-employed participant), you can roll over all or part of the distribution (including a lump-sum distribution) into a traditional IRA. For information on lump-sum distributions, see



*Lump-Sum Distributions under Taxation of Nonperiodic Payments* in Pub. 575.

**More information.** For more information about Keogh plans, see chapter 4 of Pub. 560.

**Distribution from a tax-sheltered annuity.** If you receive an eligible rollover distribution from a tax-sheltered annuity plan (section 403(b) plan), you can roll it over into a traditional IRA.

**Receipt of property other than money.** If you receive property other than money, you can sell the property and roll over the proceeds as discussed earlier.

**Rollover from bond purchase plan.** If you redeem retirement bonds that were distributed to you under a qualified bond purchase plan, you can roll over tax free into a traditional IRA the part of the amount you receive that is more than your basis in the retirement bonds.

## **Reporting rollovers from employer plans.**

Enter the total distribution (before income tax or other deductions were withheld) on Form 1040, 1040-SR, or 1040-NR, line 5a. This amount should be shown in box 1 of Form 1099-R. From this amount, subtract any contributions (usually shown in box 5 of Form 1099-R) that were taxable to you when made. From that result, subtract the amount that was rolled over either directly or within 60 days of receiving the distribution. Enter the remaining amount, even if zero, on Form 1040, 1040-SR, or 1040-NR, line 5b. Also, enter "Rollover" next to line 5b of Form 1040, 1040-SR, or 1040-NR.

## **Transfers Incident to Divorce**

If an interest in a traditional IRA is transferred from your spouse or former spouse to you by a divorce or separate maintenance decree or a written document related to such a decree, the interest in the IRA, starting from the date of the transfer, is

treated as your IRA. The transfer is tax free. For information about transfers of interests in employer plans, see [Distributions under divorce or similar proceedings \(alternate payees\)](#) under *Rollover From Employer's Plan Into an IRA*, earlier.

**Transfer methods.** There are two commonly used methods of transferring IRA assets to a spouse or former spouse. The methods are:

- Changing the name on the IRA, and
- Making a direct transfer of IRA assets.

***Changing the name on the IRA.*** If all the assets are to be transferred, you can make the transfer by changing the name on the IRA from your name to the name of your spouse or former spouse.

***Direct transfer.*** Under this method, you direct the trustee of the traditional IRA to transfer the affected assets directly to the trustee of a new or existing traditional IRA set

up in the name of your spouse or former spouse.

If your spouse or former spouse is allowed to keep their portion of the IRA assets in your existing IRA, you can direct the trustee to transfer the assets you are permitted to keep directly to a new or existing traditional IRA set up in your name. The name on the IRA containing your spouse's or former spouse's portion of the assets would then be changed to show their ownership.



*If the transfer results in a change in the basis of the traditional IRA of either spouse, both spouses must file Form 8606 and follow the directions in the instructions for that form.*

## **Converting From Any Traditional IRA Into a Roth IRA**

**Allowable conversions.** You can withdraw all or part of the assets from a traditional IRA and reinvest them (within 60 days) in a Roth

IRA. The amount that you withdraw and timely contribute (convert) to the Roth IRA is called a conversion contribution. If properly (and timely) rolled over, the 10% additional tax on early distributions won't apply.

However, a part or all of the distribution from your traditional IRA may be included in gross income and subjected to ordinary income tax.

You must roll over into the Roth IRA the same property you received from the traditional IRA. You can roll over part of the withdrawal into a Roth IRA and keep the rest of it. The amount you keep will generally be taxable (except for the part that is a return of nondeductible contributions) and may be subject to the 10% additional tax on early distributions. See [When Can You Withdraw or Use Assets](#), later, for more information on distributions from traditional IRAs and *Early Distributions* in Pub. 590-B for more information on the tax on early distributions.

***Periodic distributions.*** If you started taking substantially equal periodic payments from a traditional IRA, you can convert the amounts in the traditional IRA to a Roth IRA and then continue the periodic payments. The 10% additional tax on early distributions won't apply even if the distributions aren't qualified distributions (as long as they are part of a series of substantially equal periodic payments).

**Required distributions.** You can't convert amounts that must be distributed from your traditional IRA for a particular year (including the calendar year in which you reach age 73) under the required distribution rules (discussed in Pub. 590-B).

**Income.** You must include in your gross income distributions from a traditional IRA that you would have had to include in income if you hadn't converted them into a Roth IRA. These amounts are normally included in income on your return for the year that you

converted them from a traditional IRA to a Roth IRA.

You don't include in gross income any part of a distribution from a traditional IRA that is a return of your basis, as discussed under *Are Distributions Taxable* in Pub. 590-B.



*If you must include any amount in your gross income, you may have to increase your withholding or make estimated tax payments. See Pub. 505, Tax Withholding and Estimated Tax.*

## **Recharacterizations**

You may be able to treat a contribution made to one type of IRA as having been made to a different type of IRA. This is called recharacterizing the contribution.

To recharacterize a contribution, you must generally have the contribution transferred from the first IRA (the one to which it was made) to the second IRA in a trustee-to-trustee transfer. If the transfer is made by

the due date (including extensions) for your tax return for the tax year for which the contribution was made, you can elect to treat the contribution as having been originally made to the second IRA instead of to the first IRA. If you recharacterize your contribution, you must do all three of the following.

- Include in the transfer any net income allocable to the contribution. If there was a loss, the net income you must transfer may be a negative amount.
- Report the recharacterization on your tax return for the year during which the contribution was made.
- Treat the contribution as having been made to the second IRA on the date that it was actually made to the first IRA.



**No recharacterizations of conversions made in 2018 or later.** A conversion of a traditional IRA to a Roth IRA, and a rollover from any other eligible retirement plan to a Roth IRA, made in tax years beginning after December 31, 2017, cannot be recharacterized as having been made to a traditional IRA. If you made a conversion in the 2017 tax year, you had until the due date (including extensions) for filing the return for that tax year to recharacterize it.

**No deduction allowed.** You can't deduct the contribution to the first IRA. Any net income you transfer with the recharacterized contribution is treated as earned in the second IRA. The contribution won't be treated as having been made to the second IRA to the extent any deduction was allowed for the contribution to the first IRA.

**Conversion by rollover from traditional to Roth IRA.** You receive a distribution from a traditional IRA in 1 tax year. You then roll it over into a Roth IRA within 60 days of the distribution from the traditional IRA but in the next year. For recharacterization purposes, you would treat this transaction as a contribution to the Roth IRA in the year of the distribution from the traditional IRA.

**Effect of previous tax-free transfers.** If an amount has been moved from one IRA to another in a tax-free transfer, such as a rollover, you generally can't recharacterize the amount that was transferred. However, see [Traditional IRA mistakenly moved to SIMPLE IRA](#) next.

***Traditional IRA mistakenly moved to SIMPLE IRA.*** If you mistakenly roll over or transfer an amount from a traditional IRA to a SIMPLE IRA, you can later recharacterize the amount as a contribution to another traditional IRA.

## **Recharacterizing excess contributions.**

You can recharacterize only actual contributions. If you are applying excess contributions for prior years as current contributions, you can recharacterize them only if the recharacterization would still be timely with respect to the tax year for which the applied contributions were actually made.

**Example.** You contributed more than you were entitled to in 2023. You can't recharacterize the excess contributions you made in 2023 after April 15, 2024, because contributions after that date are no longer timely for 2023.

## **Recharacterizing employer contributions.**

You can't recharacterize employer contributions (including elective deferrals) under a SEP or SIMPLE plan as contributions to another IRA. SEPs are discussed in chapter 2 of Pub. 560. SIMPLE plans are discussed in chapter 3 of Pub. 560.

**Recharacterization not counted as rollover.** The recharacterization of a contribution is not treated as a rollover for purposes of the 1-year waiting period described earlier in this chapter under [\*Rollover From One IRA Into Another\*](#). This is true even if the contribution would have been treated as a rollover contribution by the second IRA if it had been made directly to the second IRA rather than as a result of a recharacterization of a contribution to the first IRA.

## **How Do You Recharacterize a Contribution?**

To recharacterize a contribution, you must notify both the trustee of the first IRA (the one to which the contribution was actually made) and the trustee of the second IRA (the one to which the contribution is being moved) that you have elected to treat the contribution as having been made to the second IRA rather than the first. You must make the

notifications by the date of the transfer. Only one notification is required if both IRAs are maintained by the same trustee. The notification(s) must include all of the following information.

- The type and amount of the contribution to the first IRA that is to be recharacterized.
- The date on which the contribution was made to the first IRA and the year for which it was made.
- A direction to the trustee of the first IRA to transfer in a trustee-to-trustee transfer the amount of the contribution and any net income (or loss) allocable to the contribution to the trustee of the second IRA.
- The name of the trustee of the first IRA and the name of the trustee of the second IRA.
- Any additional information needed to make the transfer.

In most cases, the net income you must transfer is determined by your IRA trustee or custodian. If you need to determine the applicable net income on IRA contributions made after 2023 that are recharacterized, use [Worksheet 1-3](#). See Regulations section 1.408A-5 for more information.

Worksheet 1-3. **Determining the Amount of Net Income Due to an IRA Contribution and Total Amount To Be Recharacterized**

Keep for Your Records 

1.	Enter the amount of your IRA contribution for 2024 to be recharacterized .....	1.	_____
2.	Enter the fair market value of the IRA immediately prior to the recharacterization (include any distributions, transfers, or recharacterizations made while the contribution was in the account) .....	2.	_____
3.	Enter the fair market value of the IRA immediately prior to the time the contribution being recharacterized was made, including the amount of such contribution and any other contributions, transfers, or recharacterizations made while the contribution was in the account .....	3.	_____
4.	Subtract line 3 from line 2 .....	4.	_____
5.	Divide line 4 by line 3. Enter the result as a decimal (rounded to at least three places) .....	5.	_____
6.	Multiply line 1 by line 5. This is the net income attributable to the contribution to be recharacterized .....	6.	_____
7.	Add lines 1 and 6. This is the amount of the IRA contribution plus the net income attributable to it to be recharacterized .....	7.	_____

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**Timing.** The election to recharacterize and the transfer must both take place on or before the due date (including extensions) for filing your tax return for the tax year for which the contribution was made to the first IRA.

**Extension.** Ordinarily, you must choose to recharacterize a contribution by the due date of the return or the due date including extensions. However, if you miss this deadline, you can still recharacterize a contribution if:

- Your return was timely filed for the year the choice should have been made; and
- You take appropriate corrective action within 6 months from the due date of your return, excluding extensions. For returns due April 15, 2024, this period ends on October 15, 2024. When the date for doing any act for tax purposes falls on a Saturday, Sunday, or legal holiday, the

due date is delayed until the next business day.

Appropriate corrective action consists of:

- Notifying the trustee(s) of your intent to recharacterize,
- Providing the trustee with all necessary information, and
- Having the trustee transfer the contribution.

Once this is done, you must amend your return to show the recharacterization. You have until the regular due date for amending a return to do this. Report the recharacterization on the amended return and write "Filed pursuant to section 301.9100-2" on the return. File the amended return at the same address you filed the original return.

***Decedent.*** The election to recharacterize can be made on behalf of a deceased IRA owner by the executor, administrator, or other

person responsible for filing the decedent's final income tax return.

**Election can't be changed.** After the transfer has taken place, you can't change your election to recharacterize.

**Same trustee.** Recharacterizations made with the same trustee can be made by redesignating the first IRA as the second IRA, rather than transferring the account balance.

## **Reporting a Recharacterization**

If you elect to recharacterize a contribution to one IRA as a contribution to another IRA, you must report the recharacterization on your tax return as directed by Form 8606 and its instructions. You must treat the contribution as having been made to the second IRA.

**More than one IRA.** If you have more than one IRA, figure the amount to be recharacterized only on the account from which you withdraw the contribution.

## **When Can You Withdraw or Use Assets?**

You can withdraw or use your traditional IRA assets at any time. However, a 10% additional tax generally applies if you withdraw or use IRA assets before you reach age 59 1/2. This is explained under *Age 59 1/2 Rule* under *Early Distributions* in Pub. 590-B.

You can generally make a tax-free withdrawal of contributions if you do it before the due date for filing your tax return for the year in which you made them. This means that, even if you are under age 59 1/2, the 10% additional tax may not apply. These withdrawals are explained later.

## **Contributions Returned Before Due Date of Return**

If you made IRA contributions in 2023, you can withdraw them tax free by the due date of

your return. If you have an extension of time to file your return, you can withdraw them tax free by the extended due date. You can do this if, for each contribution you withdraw, both of the following conditions apply.

- You didn't take a deduction for the contribution.
- You withdraw any interest or other income earned on the contribution. You can take into account any loss on the contribution while it was in the IRA when calculating the amount that must be withdrawn. If there was a loss, the net income earned on the contribution may be a negative amount.

**Note.** If you timely filed your 2023 tax return without withdrawing a contribution that you made in 2023, you can still have the contribution returned to you within 6 months of the due date of your 2023 tax return, excluding extensions. If you do, file an

amended return with “Filed pursuant to section 301.9100-2” written at the top. Report any related earnings on the amended return and include an explanation of the withdrawal. Make any other necessary changes on the amended return (for example, if you reported the contributions as excess contributions on your original return, include an amended Form 5329 reflecting that the withdrawn contributions are no longer treated as having been contributed).

In most cases, the net income you must withdraw is determined by the IRA trustee or custodian. If you need to determine the applicable net income on IRA contributions made after 2023 that are returned to you, use [Worksheet 1-4](#). See Regulations section 1.408-11 for more information.

Worksheet 1-4. **Determining the Amount of Net Income Due to an IRA Contribution and Total Amount To Be Withdrawn From the IRA**

Keep for Your Records 

1.	Enter the amount of your IRA contribution for 2024 to be returned to you .....	1.	_____
2.	Enter the fair market value of the IRA immediately prior to the removal of the contribution, plus the amount of any distributions, transfers, and recharacterizations made while the contribution was in the IRA .....	2.	_____
3.	Enter the fair market value of the IRA immediately before the contribution was made, plus the amount of such contribution and any other contributions, transfers, and recharacterizations made while the contribution was in the IRA .....	3.	_____
4.	Subtract line 3 from line 2 .....	4.	_____
5.	Divide line 4 by line 3. Enter the result as a decimal (rounded to at least three places) .....	5.	_____
6.	Multiply line 1 by line 5. This is the net income attributable to the contribution to be returned .....	6.	_____
7.	Add lines 1 and 6. This is the amount of the IRA contribution plus the net income attributable to it to be returned to you .....	7.	_____

Worksheet 1-4. **Example—Illustrated**

Keep for Your Records 

1.	Enter the amount of your IRA contribution for 2024 to be returned to you .....	1.	400
2.	Enter the fair market value of the IRA immediately prior to the removal of the contribution, plus the amount of any distributions, transfers, and recharacterizations made while the contribution was in the IRA .....	2.	7,600
3.	Enter the fair market value of the IRA immediately before the contribution was made, plus the amount of such contribution and any other contributions, transfers, and recharacterizations made while the contribution was in the IRA .....	3.	6,400
4.	Subtract line 3 from line 2 .....	4.	1,200
5.	Divide line 4 by line 3. Enter the result as a decimal (rounded to at least three places) .....	5.	0.1875
6.	Multiply line 1 by line 5. This is the net income attributable to the contribution to be returned .....	6.	75
7.	Add lines 1 and 6. This is the amount of the IRA contribution plus the net income attributable to it to be returned to you .....	7.	475



**Example.** On May 2, 2024, when your IRA is worth \$4,800, you make a \$1,600 regular contribution to your IRA. You request that \$400 of the May 2, 2024, contribution be returned to you. On February 2, 2025, when the IRA is worth \$7,600, the IRA trustee distributes to you the \$400 plus net income attributable to the contribution. No other contributions have been made to the IRA for 2024 and no distributions have been made.

The adjusted opening balance is \$6,400 (\$4,800 + \$1,600) and the adjusted closing balance is \$7,600. The net income due to the May 2, 2024, contribution is \$75 ( $\$400 \times (\$7,600 - \$6,400) \div \$6,400$ ). Therefore, the total to be distributed on February 2, 2025, is \$475. This is shown on [Worksheet 1-4](#).  
[Example—Illustrated](#).

**Last-in first-out rule.** If you made more than one regular contribution for the year, your last contribution is considered to be the one that is returned to you first.

## Earnings Includible in Income

You must include in income any earnings on the contributions you withdraw. Include the earnings in income for the year in which you made the contributions, not the year in which you withdraw them.



Generally, except for any part of a withdrawal that is a return of nondeductible contributions (basis), any withdrawal of your contributions after the due date (or extended due date) of your return will be treated as a taxable distribution. [Excess contributions](#) can also be recovered tax free as discussed under [What Acts Result in Penalties or Additional Taxes](#), later.

## Early Distributions Tax

The 10% additional tax on distributions made before you reach age 59 1/2 doesn't apply to these tax-free withdrawals of your contributions. However, the distribution of

interest or other income must be reported on Form 5329 and, unless the distribution qualifies as an exception to the age 59 1/2 rule, it will be subject to this tax. See *Early Distributions* under *What Acts Result in Penalties or Additional Taxes?* in Pub. 590-B.

## **Excess Contributions Tax**

If any part of these contributions is an excess contribution for 2022, it is subject to a 6% excise tax. You won't have to pay the 6% tax if any 2022 excess contribution was withdrawn by April 18, 2023 (including extensions), and if any 2023 excess contribution is withdrawn by April 15, 2024 (including extensions). See [Excess Contributions](#) under [What Acts Result in Penalties or Additional Taxes](#), later.



*You may be able to treat a contribution made to one type of IRA as having been made to a different type of IRA. This is called recharacterizing the*

*contribution. See [Recharacterizations](#), earlier, for more information.*

## **What Acts Result in Penalties or Additional Taxes?**

The tax advantages of using traditional IRAs for retirement savings can be offset by additional taxes and penalties if you don't follow the rules. There are additions to the regular tax for using your IRA funds in prohibited transactions. There are also additional taxes for the following activities.

- Investing in collectibles.
- Making excess contributions.
- Taking early distributions. See Pub. 590-B.
- Allowing excess amounts to accumulate (failing to take required distributions). See Pub. 590-B.
- Having unrelated business income.

There are penalties for overstating the amount of nondeductible contributions and for failure to file Form 8606, if required.

This chapter discusses those acts that you should avoid and the additional taxes and other costs, including loss of IRA status, that apply if you don't avoid those acts.

## **Prohibited Transactions**

Generally, a prohibited transaction is any improper use of your traditional IRA account or annuity by you, your beneficiary, or any disqualified person.

Disqualified persons include your fiduciary and members of your family (spouse, ancestor, lineal descendant, and any spouse of a lineal descendant).

The following are some examples of prohibited transactions with a traditional IRA.

- Borrowing money from it.
- Selling property to it.

- Using it as security for a loan.
- Buying property for personal use (present or future) with IRA funds.



*If your IRA is invested in nonpublicly traded assets or assets that you directly control, the risk of engaging in a prohibited transaction in connection with your account may be increased.*

**Fiduciary.** For these purposes, a fiduciary includes anyone who does any of the following.

- Exercises any discretionary authority or discretionary control in managing your IRA or exercises any authority or control in managing or disposing of its assets.
- Provides investment advice to your IRA for a fee, or has any authority or responsibility to do so.

- Has any discretionary authority or discretionary responsibility in administering your IRA.

**Effect on an IRA account.** Generally, if you or your beneficiary engages in a prohibited transaction in connection with your traditional IRA account at any time during the year, the account stops being an IRA as of the first day of that year.

However, if you own more than one IRA, each IRA is treated as a separate account, and loss of IRA status only affects that IRA that participated in the prohibited transaction.

**Effect on you or your beneficiary.** If your account stops being an IRA because you or your beneficiary engaged in a prohibited transaction, the account is treated as distributing all its assets to you at their fair market values on the first day of the year. If the total of those values is more than your basis in the IRA, you will have a taxable gain that is includible in your income. For

information on figuring your gain and reporting it in income, see *Are Distributions Taxable?* in Pub. 590-B. The distribution may be subject to additional taxes or penalties.

***Borrowing on an annuity contract.*** If you borrow money against your traditional IRA annuity contract, you must include in your gross income the fair market value of the annuity contract as of the first day of your tax year. You may have to pay the 10% additional tax on early distributions discussed in Pub. 590-B.

***Pledging an account as security.*** If you use a part of your traditional IRA account as security for a loan, that part is treated as a distribution and is included in your gross income. You may have to pay the 10% additional tax on early distributions discussed in Pub. 590-B.

**Trust account set up by an employer or an employee association.** Your account or annuity doesn't lose its IRA treatment if your



employer or the employee association with whom you have your traditional IRA engages in a prohibited transaction.

***Owner participation.*** If you participate in the prohibited transaction with your employer or the association, your account is no longer treated as an IRA.

**Taxes on prohibited transactions.** If someone other than the owner or beneficiary of a traditional IRA engages in a prohibited transaction, that person may be liable for certain taxes. In general, there is a 15% tax on the amount of the prohibited transaction and a 100% additional tax if the transaction isn't corrected.

***Loss of IRA status.*** If the traditional IRA ceases to be an IRA because of a prohibited transaction by you or your beneficiary, you or your beneficiary isn't liable for these excise taxes. However, you or your beneficiary may have to pay other taxes, as discussed under [Effect on you or your beneficiary](#), earlier.

## **Exempt Transactions**

The Department of Labor has authority to grant administrative exemptions from the prohibited transaction provisions of ERISA and the Code for a class of transactions or for individual transactions. In order to grant an administrative exemption, the Department must make the following three determinations.

1. The exemption must be administratively feasible.
2. In the interest of the plan and its participants.
3. Protective of the rights of plan participants and beneficiaries.

For additional information on prohibited transaction exemptions, see the Department of Labor publication, [Exemption Procedures under Federal Pension Law](#).

The following two types of transactions aren't prohibited transactions if they meet the requirements that follow.

- Payments of cash, property, or other consideration by the sponsor of your traditional IRA to you (or members of your family).
- Your receipt of services at reduced or no cost from the bank where your traditional IRA is established or maintained.

**Payments of cash, property, or other consideration.** Even if a sponsor makes payments to you or your family, there is no prohibited transaction if all three of the following requirements are met.

1. The payments are for establishing a traditional IRA or for making additional contributions to it.
2. The IRA is established solely to benefit you, your spouse, and your or your spouse's beneficiaries.

3. During the year, the total fair market value of the payments you receive isn't more than:
  - a. \$10 for IRA deposits of less than \$5,000, or
  - b. \$20 for IRA deposits of \$5,000 or more.

If the consideration is group-term life insurance, requirements (1) and (3) don't apply if no more than \$5,000 of the face value of the insurance is based on a dollar-for-dollar basis on the assets in your IRA.

**Services received at reduced or no cost.**

Even if a sponsor provides services at reduced or no cost, there is no prohibited transaction if all of the following requirements are met.

- The traditional IRA qualifying you to receive the services is established and maintained for the benefit of you, your spouse, and your or your spouse's beneficiaries.

- The bank itself can legally offer the services.
- The services are provided in the ordinary course of business by the bank (or a bank affiliate) to customers who qualify but don't maintain an IRA (or a Keogh plan).
- The determination, for a traditional IRA, of who qualifies for these services is based on an IRA (or a Keogh plan) deposit balance equal to the lowest qualifying balance for any other type of account.
- The rate of return on a traditional IRA investment that qualifies isn't less than the return on an identical investment that could have been made at the same time at the same branch of the bank by a customer who isn't eligible for (or doesn't receive) these services.

## **Investment in Collectibles**

If your traditional IRA invests in collectibles, the amount invested is considered distributed

to you in the year invested. You may have to pay the 10% additional tax on early distributions discussed in Pub. 590-B.

Any amounts that were considered to be distributed when the investment in the collectible was made, and which were included in your income at that time, aren't included in your income when the collectible is actually distributed from your IRA.

**Collectibles.** These include:

- Artworks,
- Rugs,
- Antiques,
- Metals,
- Gems,
- Stamps,
- Coins,
- Alcoholic beverages, and

- Certain other tangible personal property.

***Exception.*** Your IRA can invest in one, one-half, one-quarter, or one-tenth ounce U.S. gold coins, or one-ounce silver coins minted by the Treasury Department. It can also invest in certain platinum coins and certain gold, silver, palladium, and platinum bullion.

## **Unrelated Business Income**

An IRA is subject to tax on unrelated business income if it carries on an unrelated trade or business. An unrelated trade or business means any trade or business regularly carried on by the IRA or by a partnership of which it is a member. If the IRA has \$1,000 or more of unrelated trade or business gross income, the IRA trustee is required to file a Form 990-T, Exempt Organization Business Income Tax Return. The Form 990-T must be filed by the 15th day of the 4th month after the end of the IRA's tax year. See Pub. 598, Tax on

Unrelated Business Income of Exempt Organizations, for more information.

## **Excess Contributions**

Generally, an excess contribution is the amount contributed to your traditional IRAs for the year that is more than the smaller of:

- \$6,500 (\$7,500 if you are age 50 or older), or
- Your taxable compensation for the year.

The taxable compensation limit applies whether your contributions are deductible or nondeductible.

An excess contribution could be the result of your contribution, your spouse's contribution, your employer's contribution, or an improper rollover contribution. If your employer makes contributions on your behalf to a SEP IRA, see chapter 2 of Pub. 560.



## Tax on Excess Contributions

In general, if the excess contributions for a year aren't withdrawn by the date your return for the year is due (including extensions), you are subject to a 6% tax. You must pay the 6% tax each year on excess amounts that remain in your traditional IRA at the end of your tax year. The tax can't be more than 6% of the combined value of all your IRAs as of the end of your tax year.

The additional tax is figured on Form 5329. For information on filing Form 5329, see [\*Reporting Additional Taxes\*](#), later.

**Example.** For 2023, you are 45 years old and single. Your compensation is \$31,000 and you contributed \$7,000 to your traditional IRA. You have made an excess contribution to your IRA of \$500 (\$7,000 minus the \$6,500 limit). The contribution earned \$5 interest in 2023 and \$6 interest in 2024 before the due date of the return, including extensions. You don't withdraw the \$500 or the interest it earned by

the due date of your return, including extensions.

You figure your additional tax for 2023 by multiplying the excess contribution (\$500) shown on Form 5329, line 16, by 0.06, giving you an additional tax liability of \$30. You enter the tax on Form 5329, line 17, and on Schedule 2 (Form 1040), line 8. See the [filled-in Form 5329](#), later.

## **Excess Contributions Withdrawn by Due Date of Return**

You won't have to pay the 6% tax if you withdraw an excess contribution made during a tax year and you also withdraw any interest or other income earned on the excess contribution. You must complete your withdrawal by the date your tax return for that year is due, including extensions.

### **How to treat withdrawn contributions.**

Don't include in your gross income an excess contribution that you withdraw from your

traditional IRA before your tax return is due if both of the following conditions are met.

- No deduction was allowed for the excess contribution.
- You withdraw the interest or other income earned on the excess contribution.

You can take into account any loss on the contribution while it was in the IRA when calculating the amount that must be withdrawn. If there was a loss, the net income you must withdraw may be a negative amount.

In most cases, the net income you must transfer will be determined by your IRA trustee or custodian. If you need to determine the applicable net income you need to withdraw, you can use the same method that was used in [Worksheet 1-3](#).

If you timely filed your 2023 tax return without withdrawing a contribution that you made in 2023, you can still have the

contribution returned to you within 6 months of the due date of your 2023 tax return, excluding extensions. If you do, file an amended return with "Filed pursuant to section 301.9100-2" written at the top. Report any related earnings on the amended return and include an explanation of the withdrawal. Make any other necessary changes on the amended return (for example, if you reported the contributions as excess contributions on your original return, include an amended Form 5329 reflecting that the withdrawn contributions are no longer treated as having been contributed).

**How to treat withdrawn interest or other income.** You must include in your gross income the interest or other income that was earned on the excess contribution. Report it on your return for the year in which the excess contribution was made. Your withdrawal of interest or other income may be

subject to an additional 10% tax on early distributions discussed in Pub. 590-B.

Beginning on or after December 29, 2022, the 10% additional tax will not apply to your withdrawal of interest or other income, if withdrawn on or before the due date (including extensions) of the income tax return. See Pub. 590-B for more information.

**Form 1099-R.** You will receive Form 1099-R indicating the amount of the withdrawal. If the excess contribution was made in a previous tax year, the form will indicate the year in which the earnings are taxable.

**Example.** Maria, age 35, made an excess contribution in 2023 of \$1,000, which she withdrew by April 15, 2024, the due date of her return. At the same time, she also withdrew the \$50 income that was earned on the \$1,000. She must include the \$50 in her gross income for 2023 (the year in which the excess contribution was made).

Maria doesn't have to report the excess contribution as income nor pay the 6% additional tax because she withdrew the excess contribution by the due date of her return. Maria receives a Form 1099-R showing that the earnings are taxable for 2023.

## **Excess Contributions Withdrawn After Due Date of Return**

In general, you must include all distributions (withdrawals) from your traditional IRA in your gross income. However, if the following conditions are met, you can withdraw excess contributions from your IRA and not include the amount withdrawn in your gross income.

- Total contributions (other than rollover contributions) for 2023 to your IRA weren't more than \$6,500 (\$7,500 if you are age 50 or older).
- You didn't take a deduction for the excess contribution being withdrawn.

The withdrawal can take place at any time, even after the due date, including extensions, for filing your tax return for the year.

**Excess contribution deducted in an earlier year.** If you deducted an excess contribution in an earlier year for which the total contributions weren't more than the maximum deductible amount for that year (see the following table), you can still remove the excess from your traditional IRA and not include it in your gross income. To do this, file Form 1040-X for that year and don't deduct the excess contribution on the amended return. Generally, you can file an amended return within 3 years after you filed your return, or 2 years from the time the tax was paid, whichever is later.

<b>Year(s)</b>	<b>Contribution limit</b>	<b>Contribution limit if age 50 or older at the end of the year</b>
2023	\$6,500	\$7,500
2019 through 2022	\$6,000	\$7,000
2013 through 2018	\$5,500	\$6,500
2008 through 2012	\$5,000	\$6,000
2006 or 2007	\$4,000	\$5,000
2005	\$4,000	\$4,500



2002 through 2004	\$3,000	\$3,500
1997 through 2001	\$2,000	—
before 1997	\$2,250	—

### **Excess due to incorrect rollover**

**information.** If an excess contribution in your traditional IRA is the result of a rollover and the excess occurred because the information the plan was required to give you was incorrect, you can withdraw the excess contribution. The limits mentioned above are increased by the amount of the excess that is due to the incorrect information. You will have to amend your return for the year in which the excess occurred to correct the reporting of the rollover amounts in that year. Don't include in your gross income the part of the

excess contribution caused by the incorrect information.

## **Deducting an Excess Contribution in a Later Year**

You can't apply an excess contribution to an earlier year even if you contributed less than the maximum amount allowable for the earlier year. However, you may be able to apply it to a later year if the contributions for that later year are less than the maximum allowed for that year.

You can deduct excess contributions for previous years that are still in your traditional IRA. The amount you can deduct this year is the lesser of the following two amounts.

- Your maximum IRA deduction for this year minus any amounts contributed to your traditional IRAs for this year.
- The total excess contributions in your IRAs at the beginning of this year.

This method lets you avoid making a withdrawal. It doesn't, however, let you avoid the 6% tax on any excess contributions remaining at the end of a tax year.

To figure the amount of excess contributions for previous years that you can deduct this year, see [Worksheet 1-5](#).

## Worksheet 1-5. **Excess Contributions Deductible This Year**

*Use this worksheet to figure the amount of excess contributions from prior years you can deduct this year.*

1. Maximum IRA deduction for the current year..... **1.\_\_\_\_**

2. IRA contributions for the current year..... **2.\_\_\_\_**

3. Subtract line 2 from line 1. If zero or less, enter -0-..... **3.\_\_\_\_**

4. Excess contributions in IRA at beginning of year..... **4.\_\_\_\_**

5. Enter the lesser of line 3 or line 4. This is the amount of excess contributions for previous years that you can deduct this year.... **5.\_\_\_\_**