

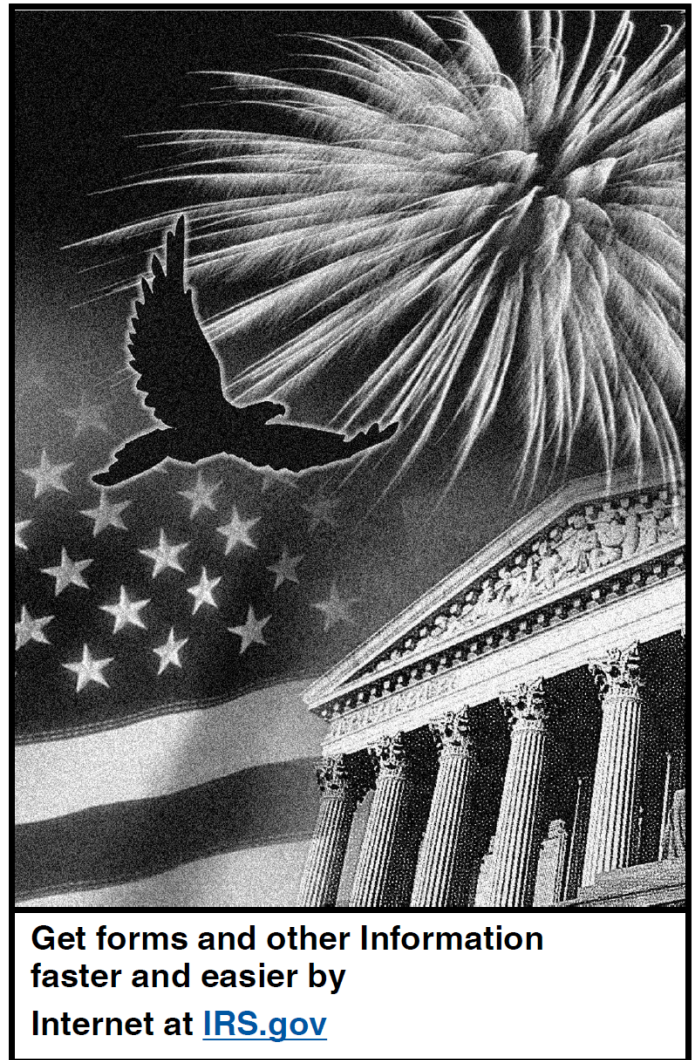
Publication 590

Individual Retirement Arrangements (IRAs)

For Use in Preparing

2013 Returns

Volume 4 of 5



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Additional 10% tax

The additional tax on early distributions is 10% of the amount of the early distribution that you must include in your gross income. This tax is in addition to any regular income tax resulting from including the distribution in income.

Use Form 5329 to figure the tax. See the discussion of Form 5329, later, under Reporting Additional Taxes for information on filing the form.

Example. Tom Jones, who is 35 years old, receives a \$3,000 distribution from his traditional IRA account. Tom does not meet any of the exceptions to the 10% additional tax, so the \$3,000 is an early distribution. Tom never made any nondeductible contributions to his IRA. He must include the \$3,000 in his gross income for the year of the distribution and pay income tax on it. Tom must also pay an additional tax of \$300 (10% × \$3,000). He files Form 5329. See the filled-in Form 5329, later.



Early distributions of funds from a SIMPLE retirement account made within 2 years of beginning participation in the SIMPLE are subject to a 25%, rather than a 10%, early distributions tax.

Nondeductible contributions. The tax on early distributions does not apply to the part of a distribution that represents a return of your nondeductible contributions (basis).

Excess Accumulations (Insufficient Distributions)

You cannot keep amounts in your traditional IRA indefinitely. Generally, you must begin receiving distributions by April 1 of the year following the year in which you reach age 70½. The required minimum distribution for any year after the year in which you reach age 70½ must be made by December 31 of that later year.

Tax on excess. If distributions are less than the required minimum distribution for the year, discussed earlier under *When Must You Withdraw Assets? (Required Minimum*

Distributions), you may have to pay a 50% excise tax for that year on the amount not distributed as required.

Reporting the tax. Use Form 5329 to report the tax on excess accumulations. See the discussion of Form 5329, later, under Reporting Additional Taxes, for more information on filing the form.

Request to waive the tax. If the excess accumulation is due to reasonable error, and you have taken, or are taking, steps to remedy the insufficient distribution, you can request that the tax be waived. If you believe you qualify for this relief, attach a statement of explanation and complete Form 5329 as instructed under *Waiver of tax* in the Instructions for Form 5329.

Exemption from tax. If you are unable to take required distributions because you have a traditional IRA invested in a contract issued by an insurance company that is in state insurer delinquency proceedings, the 50% excise tax does not apply if the conditions and requirements of Revenue Procedure 92-10 are satisfied. Those conditions and requirements

are summarized below. Revenue Procedure 92-10 is in Cumulative Bulletin 1992-1. To obtain a copy of this revenue procedure, see Mail in chapter 5, *How to Get Tax Help*, later. You can also read the revenue procedure at most IRS offices, at many public libraries, and online at IRS.gov.

Conditions. To qualify for exemption from the tax, the assets in your traditional IRA must include an affected investment. Also, the amount of your required distribution must be determined as discussed earlier under *When Must You Withdraw Assets? (Required Minimum Distributions)*.

Affected investment defined. Affected investment means an annuity contract or a guaranteed investment contract (with an insurance company) for which payments under the terms of the contract have been reduced or suspended because of state insurer delinquency proceedings against the contracting insurance company.

Requirements. If your traditional IRA (or IRAs) includes assets other than your affected investment, all traditional IRA assets,

including the available portion of your affected investment, must be used to satisfy as much as possible of your IRA distribution requirement. If the affected investment is the only asset in your IRA, as much of the required distribution as possible must come from the available portion, if any, of your affected investment.

Available portion. The available portion of your affected investment is the amount of payments remaining after they have been reduced or suspended because of state insurer delinquency proceedings.

Make up of shortfall in distribution. If the payments to you under the contract increase because all or part of the reduction or suspension is canceled, you must make up the amount of any shortfall in a prior distribution because of the proceedings. You make up (reduce or eliminate) the shortfall with the increased payments you receive.

You must make up the shortfall by December 31 of the calendar year following the year that you receive increased payments.

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Additional Taxes on Qualified Plans
(Including IRAs) and Other Tax-Favored Accounts

► Attach to Form 1040 or Form 1040NR.
► Information about Form 5329 and its separate instructions is at www.irs.gov/form5329.

OMB No. 1545-0074

20**13**

Attachment
Sequence No. **29**

Name of individual subject to additional tax. If married filing jointly, see instructions.		Your social security number	
Tom Jones		004-00-0000	
Fill in Your Address Only If You Are Filing This Form by Itself and Not With Your Tax Return	Home address (number and street), or P.O. box if mail is not delivered to your home		Apt. no.
	City, town or post office, state, and ZIP code. If you have a foreign address, also complete the spaces below (see instructions).		If this is an amended return, check here ► <input type="checkbox"/>
	Foreign country name	Foreign province/state/county	

If you **only** owe the additional 10% tax on early distributions, you may be able to report this tax directly on Form 1040, line 58, or Form 1040NR, line 56, without filing Form 5329. See the instructions for Form 1040, line 58, or for Form 1040NR, line 56.

Part I Additional Tax on Early Distributions

Complete this part if you took a taxable distribution before you reached age 59½ from a qualified retirement plan (including an IRA) or modified endowment contract (unless you are reporting this tax directly on Form 1040 or Form 1040NR—see above). You may also have to complete this part to indicate that you qualify for an exception to the additional tax on early distributions or for certain Roth IRA distributions (see instructions).

1	Early distributions included in income. For Roth IRA distributions, see instructions	1	3000	
2	Early distributions included on line 1 that are not subject to the additional tax (see instructions). Enter the appropriate exception number from the instructions: _____	2	-0-	
3	Amount subject to additional tax. Subtract line 2 from line 1	3	3000	
4	Additional tax. Enter 10% (.10) of line 3. Include this amount on Form 1040, line 58, or Form 1040NR, line 56	4	300	
Caution: If any part of the amount on line 3 was a distribution from a SIMPLE IRA, you may have to include 25% of that amount on line 4 instead of 10% (see instructions).				

Part II Additional Tax on Certain Distributions From Education Accounts

Complete this part if you included an amount in income, on Form 1040 or Form 1040NR, line 21, from a Coverdell education savings account (ESA) or a qualified tuition program (QTP).

5	Distributions included in income from Coverdell ESAs and QTPs	5		
6	Distributions included on line 5 that are not subject to the additional tax (see instructions) . . .	6		
7	Amount subject to additional tax. Subtract line 6 from line 5	7		
8	Additional tax. Enter 10% (.10) of line 7. Include this amount on Form 1040, line 58, or Form 1040NR, line 56	8		

Part III Additional Tax on Excess Contributions to Traditional IRAs

Complete this part if you contributed more to your traditional IRAs for 2013 than is allowable or you had an amount on line 17 of your 2012 Form 5329.

9	Enter your excess contributions from line 16 of your 2012 Form 5329 (see instructions). If zero, go to line 15	9		
10	If your traditional IRA contributions for 2013 are less than your maximum allowable contribution, see instructions. Otherwise, enter -0-	10		
11	2013 traditional IRA distributions included in income (see instructions) .	11		
12	2013 distributions of prior year excess contributions (see instructions) .	12		
13	Add lines 10, 11, and 12	13		
14	Prior year excess contributions. Subtract line 13 from line 9. If zero or less, enter -0-	14		
15	Excess contributions for 2013 (see instructions)	15		
16	Total excess contributions. Add lines 14 and 15	16		
17	Additional tax. Enter 6% (.06) of the smaller of line 16 or the value of your traditional IRAs on December 31, 2013 (including 2013 contributions made in 2014). Include this amount on Form 1040, line 58, or Form 1040NR, line 56.	17		

Part IV Additional Tax on Excess Contributions to Roth IRAs

Complete this part if you contributed more to your Roth IRAs for 2013 than is allowable or you had an amount on line 25 of your 2012 Form 5329.

18	Enter your excess contributions from line 24 of your 2012 Form 5329 (see instructions). If zero, go to line 23	18		
19	If your Roth IRA contributions for 2013 are less than your maximum allowable contribution, see instructions. Otherwise, enter -0-	19		
20	2013 distributions from your Roth IRAs (see instructions)	20		
21	Add lines 19 and 20	21		
22	Prior year excess contributions. Subtract line 21 from line 18. If zero or less, enter -0-	22		
23	Excess contributions for 2013 (see instructions)	23		
24	Total excess contributions. Add lines 22 and 23	24		
25	Additional tax. Enter 6% (.06) of the smaller of line 24 or the value of your Roth IRAs on December 31, 2013 (including 2013 contributions made in 2014). Include this amount on Form 1040, line 58, or Form 1040NR, line 56	25		

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Reporting Additional Taxes

Generally, you must use Form 5329 to report the tax on excess contributions, early distributions, and excess accumulations. If you must file Form 5329, you cannot use Form 1040A, Form 1040EZ, or Form 1040NR-EZ.

Filing a tax return. If you must file an individual income tax return, complete Form 5329 and attach it to your Form 1040 or Form 1040NR. Enter the total additional taxes due on Form 1040, line 58, or on Form 1040NR, line 56.

Not filing a tax return. If you do not have to file a return, but do have to pay one of the additional taxes mentioned earlier, file the completed Form 5329 with the IRS at the time and place you would have filed Form 1040 or Form 1040NR. Be sure to include your address on page 1 and your signature and date on page 2. Enclose, but do not attach, a check or money order payable to the United States Treasury for the tax you owe, as shown on Form 5329. Write your

social security number and "2013 Form 5329" on your check or money order.

Form 5329 not required. You do not have to use Form 5329 if either of the following situations exists.

- Distribution code 1 (early distribution) is correctly shown in box 7 of Form 1099-R. If you do not owe any other additional tax on a distribution, multiply the taxable part of the early distribution by 10% and enter the result on Form 1040, line 58, or on Form 1040NR, line 56. Put "No" to the left of the line to indicate that you do not have to file Form 5329. However, if you owe this tax and also owe any other additional tax on a distribution, do not enter this 10% additional tax directly on your Form 1040 or Form 1040NR. You must file Form 5329 to report your additional taxes.
- If you rolled over part or all of a distribution from a qualified retirement plan, the part rolled over is not subject to the tax on early distributions.

2.

Roth IRAs

What's New for 2013

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 this chapter.

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 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 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

Deemed IRAs. For plan years beginning after 2002, 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.

Designated Roth accounts. Designated Roth accounts are separate accounts under 401(k), 403(b), or 457(b) plans that accept elective deferrals that are referred to as Roth

contributions. These elective deferrals are included in your income, but qualified distributions from these accounts are not included in your income. Designated Roth accounts are not IRAs and should not be confused with Roth IRAs. Contributions, up to their respective limits, can be made to Roth IRAs and designated Roth accounts according to your eligibility to participate. A contribution to one does not impact your eligibility to contribute to the other. See Publication 575, for more information on designated Roth accounts.

Introduction

Regardless of your age, you may be able to establish and make nondeductible contributions to an individual retirement plan called a Roth IRA.

Contributions not reported. You do not report Roth IRA contributions on your return.

What Is a Roth IRA?

A Roth IRA is an individual retirement plan

that, except as explained in this chapter, is subject to the rules that apply to a traditional IRA (defined next). It can be either an account or an annuity. Individual retirement accounts and annuities are described in chapter 1 under *How Can a Traditional IRA Be Opened*.

To be a Roth IRA, the account or annuity must be designated as a Roth IRA when it is opened. A deemed IRA can be a Roth IRA, but neither a SEP IRA nor a SIMPLE IRA can be designated as a Roth IRA.

Unlike a traditional IRA, you cannot deduct contributions to a Roth IRA. But, if you satisfy the requirements, qualified distributions (discussed later) are tax free. Contributions can be made to your Roth IRA after you reach age 70½ and you can leave amounts in your Roth IRA as long as you live.

Traditional IRA. A traditional IRA is any IRA that is not a Roth IRA or SIMPLE IRA.

Traditional IRAs are discussed in chapter 1.

When Can a Roth IRA Be Opened?

You can open a Roth IRA at any time. However, the time for making contributions for any year is limited. See *When Can You Make Contributions*, later under *Can You Contribute to a Roth IRA*.

Can You Contribute to a Roth IRA?

Generally, you can contribute to a Roth IRA if you have taxable compensation (defined later) and your modified AGI (defined later) is less than:

- \$188,000 for married filing jointly or qualifying widow(er),
- \$127,000 for single, head of household, or married filing separately and you did not live with your spouse at any time during the year, and
- \$10,000 for married filing separately and you lived with your spouse at any time during the year.



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

Is there an age limit for contributions?

Contributions can be made to your Roth IRA regardless of your age.

Can you contribute to a Roth IRA for your spouse? You can contribute to a Roth IRA for your spouse provided the contributions satisfy the Kay Bailey Hutchison Spousal IRA limit discussed in chapter 1 under *How Much Can Be Contributed*, you file jointly, and your modified AGI is less than \$188,000.

Compensation. Compensation includes wages, salaries, tips, professional fees, bonuses, and other amounts received for providing personal services. It also includes commissions, self-employment income, nontaxable combat pay, military differential pay, and taxable alimony and separate maintenance payments. For more information, see What Is Compensation? under *Who Can Open a Traditional IRA?* in chapter 1.

Modified AGI. Your modified AGI for Roth IRA purposes is your adjusted gross income (AGI) as shown on your return with some adjustments. Use Worksheet 2-1, later, to determine your modified AGI.



Do not subtract conversion income when figuring your other AGI-based phase-outs and taxable income, such as your deduction for medical and dental expenses. Subtract them from AGI only for the purpose of figuring your modified AGI for Roth IRA purposes.

How Much Can Be Contributed?

The contribution limit for Roth IRAs generally depends on whether contributions are made only to Roth IRAs or to both traditional IRAs and Roth IRAs.

Roth IRAs only. If contributions are made only to Roth IRAs, your contribution limit generally is the lesser of:

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

However, if your modified AGI is above a certain amount, your contribution limit may be reduced, as explained later under *Contribution limit reduced.*

Roth IRAs and traditional IRAs. If contributions are made to both Roth IRAs and traditional IRAs established for your benefit, your contribution limit for Roth IRAs generally is the same as your limit would be if contributions were made only to Roth IRAs, but then reduced by all contributions for the year to all IRAs other than Roth IRAs. Employer contributions under a SEP or SIMPLE IRA plan do not affect this limit.

This means that your contribution limit is the lesser of:

- \$5,500 (\$6,500 if you are age 50 or older) minus all contributions (other than employer contributions under a SEP or SIMPLE IRA plan) for the year to all IRAs other than Roth IRAs, or
- Your taxable compensation minus all contributions (other than employer contributions under a SEP or SIMPLE IRA

plan) for the year to all IRAs other than Roth IRAs.

However, if your modified AGI is above a certain amount, your contribution limit may be reduced, as explained below under Contribution limit reduced.

Simplified employee pensions (SEPs) are discussed in Publication 560. Savings incentive match plans for employees (SIMPLEs) are discussed in chapter 3.

Repayment of reservist distributions. You can repay qualified reservist distributions even if the repayments would cause your total contributions to the Roth IRA to be more than the general limit on contributions. However, the total repayments cannot be more than the amount of your distribution.

Note. If you make repayments of qualified reservist distributions to a Roth IRA, increase your basis in the Roth IRA by the amount of the repayment. For more information, see Qualified reservist repayments under *How Much Can Be Contributed?* in chapter 1.

Contribution limit reduced. If your modified AGI is above a certain amount, your contribution limit is gradually reduced. Use Table 2-1, later, to determine if this reduction applies to you.

Figuring the reduction. If the amount you can contribute must be reduced, use Worksheet 2-2, later, to figure your reduced contribution limit.



Round your reduced contribution limit up to the nearest \$10. If your reduced contribution limit is more than \$0, but less than \$200, increase the limit to \$200.

Example. You are a 45-year-old, single individual with taxable compensation of \$113,000. You want to make the maximum allowable contribution to your Roth IRA for 2013. Your modified AGI for 2013 is \$113,000. You have not contributed to any traditional IRA, so the maximum contribution limit before the modified AGI reduction is \$5,500. You figure your reduced Roth IRA contribution of \$5,140 as shown on Worksheet 2-2. Example—Illustrated, later.

When Can You Make Contributions?

You can make contributions to a Roth IRA for a year at any time during the year or by the due date of your return for that year (not including extensions).

Worksheet 2-1. **Modified Adjusted Gross Income for Roth IRA Purposes**

Use this worksheet to figure your modified adjusted gross income for Roth IRA purposes.

1. Enter your adjusted gross income from Form 1040, line 38; Form 1040A, line 22; or Form 1040NR, line 37	1. _____
2. Enter any income resulting from the conversion of an IRA (other than a Roth IRA) to a Roth IRA (included on Form 1040, line 15b, Form 1040A, line 11b, or Form 1040NR, line 16b) and a rollover from a qualified retirement plan to a Roth IRA (included on Form 1040, line 16b, Form 1040A, line 12b, or Form 1040NR, line 17b)	2. _____
3. Subtract line 2 from line 1	3. _____
4. Enter any traditional IRA deduction from Form 1040, line 32; Form 1040A, line 17; or Form 1040NR, line 32	4. _____
5. Enter any student loan interest deduction from Form 1040, line 33; Form 1040A, line 18; or Form 1040NR, line 33	5. _____
6. Enter any tuition and fees deduction from Form 1040, line 34, or Form 1040A, line 19	6. _____
7. Enter any domestic production activities deduction from Form 1040, line 35, or Form 1040NR, line 34	7. _____
8. Enter any foreign earned income exclusion and/or housing exclusion from Form 2555, line 45, or Form 2555-EZ, line 18	8. _____
9. Enter any foreign housing deduction from Form 2555, line 50	9. _____
10. Enter any excludable qualified savings bond interest from Form 8815, line 14	10. _____
11. Enter any excluded employer-provided adoption benefits from Form 8839, line 28	11. _____
12. Add the amounts on lines 3 through 11	12. _____
13. Enter: • \$188,000 if married filing jointly or qualifying widow(er), • \$10,000 if married filing separately and you lived with your spouse at any time during the year, or • \$127,000 for all others	13. _____

Is the amount on line 12 more than the amount on line 13?
If yes, see the note below.
If no, the amount on line 12 is your **modified adjusted gross income** for Roth IRA purposes.

Note. If the amount on line 12 is more than the amount on line 13 and you have other income or loss items, such as social security income or passive activity losses, that are subject to AGI-based phaseouts, you can refigure your AGI solely for the purpose of figuring your modified AGI for Roth IRA purposes. (If you receive social security benefits, use [Worksheet 1](#) in *Appendix B* to refigure your AGI.) Then go to line 3 above in this Worksheet 2-1 to refigure your modified AGI. If you do not have other income or loss items subject to AGI-based phaseouts, your modified adjusted gross income for Roth IRA purposes is the amount on line 12 above.

Table 2-1. **Effect of Modified AGI on Roth IRA Contribution**

This table shows whether your contribution to a Roth IRA is affected by the amount of your modified adjusted gross income (modified AGI).

IF you have taxable compensation and your filing status is ...	AND your modified AGI is ...	THEN ...
married filing jointly or qualifying widow(er)	less than \$178,000	you can contribute up to \$5,500 (\$6,500 if you are age 50 or older) as explained under How Much Can Be Contributed .
	at least \$178,000 but less than \$188,000	the amount you can contribute is reduced as explained under Contribution limit reduced .
	\$188,000 or more	you cannot contribute to a Roth IRA.
married filing separately and you lived with your spouse at any time during the year	zero (-0-)	you can contribute up to \$5,500 (\$6,500 if you are age 50 or older) as explained under How Much Can Be Contributed .
	more than zero (-0-) but less than \$10,000	the amount you can contribute is reduced as explained under Contribution limit reduced .
	\$10,000 or more	you cannot contribute to a Roth IRA.
single, head of household, or married filing separately and you did not live with your spouse at any time during the year	less than \$112,000	you can contribute up to \$5,500 (\$6,500 if you are age 50 or older) as explained under How Much Can Be Contributed .
	at least \$112,000 but less than \$127,000	the amount you can contribute is reduced as explained under Contribution limit reduced .
	\$127,000 or more	you cannot contribute to a Roth IRA.

Worksheet 2-2. **Determining Your Reduced Roth IRA Contribution Limit**

Before using this worksheet, check [Table 2-1](#), earlier, to determine whether or not your Roth IRA contribution limit is reduced. If it is, use this worksheet to determine how much it is reduced.

1. Enter your modified AGI for Roth IRA purposes (Worksheet 2-1, line 12)	1. _____
2. Enter: <ul style="list-style-type: none">• \$178,000 if filing a joint return or qualifying widow(er),• \$-0- if married filing a separate return and you lived with your spouse at any time in 2013, or• \$112,000 for all others	2. _____
3. Subtract line 2 from line 1	3. _____
4. Enter: <ul style="list-style-type: none">• \$10,000 if filing a joint return or qualifying widow(er) or married filing a separate return and you lived with your spouse at any time during the year, or• \$15,000 for all others	4. _____
5. Divide line 3 by line 4 and enter the result as a decimal (rounded to at least three places). If the result is 1.000 or more, enter 1.000	5. _____
6. Enter the lesser of: <ul style="list-style-type: none">• \$5,500 (\$6,500 if you are age 50 or older), or• Your taxable compensation	6. _____
7. Multiply line 5 by line 6	7. _____
8. Subtract line 7 from line 6. Round the result up to the nearest \$10. If the result is less than \$200, enter \$200	8. _____
9. Enter contributions for the year to other IRAs	9. _____
10. Subtract line 9 from line 6	10. _____
11. Enter the lesser of line 8 or line 10. This is your reduced Roth IRA contribution limit	11. _____

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You can make contributions for 2013 by the due date (not including extensions) for filing your 2013 tax return. This means that most people can make contributions for 2013 by April 15, 2014.

What if You Contribute Too Much?

A 6% excise tax applies to any excess contribution to a Roth IRA.

Excess contributions. These are the contributions to your Roth IRAs for a year that equal the total of:

1. Amounts contributed for the tax year to your Roth IRAs (other than amounts properly and timely rolled over from a Roth IRA or properly converted from a traditional IRA or rolled over from a qualified retirement plan, as described later) that are more than your contribution limit for the year (explained earlier under How Much Can Be Contributed?), plus

2. Any excess contributions for the preceding year, reduced by the total of:
 - a. Any distributions out of your Roth IRAs for the year, plus
 - b. Your contribution limit for the year minus your contributions to all your IRAs for the year.

Withdrawal of excess contributions. For purposes of determining excess contributions, any contribution that is withdrawn on or before the due date (including extensions) for filing your tax return for the year is treated as an amount not contributed. This treatment only applies if any earnings on the contributions are also withdrawn. The earnings are considered earned and received in the year the excess contribution was made.

Worksheet 2-2. **Example—Illustrated**

Before using this worksheet, check [Table 2-1](#), earlier, to determine whether or not your Roth IRA contribution limit is reduced. If it is, use this worksheet to determine how much it is reduced.

1. Enter your modified AGI for Roth IRA purposes (Worksheet 2-1, line 12)	1. _____	113,000
2. Enter: <ul style="list-style-type: none">• \$178,000 if filing a joint return or qualifying widow(er),• \$-0- if married filing a separate return and you lived with your spouse at any time in 2013, or• \$112,000 for all others	2. _____	112,000
3. Subtract line 2 from line 1	3. _____	1,000
4. Enter: <ul style="list-style-type: none">• \$10,000 if filing a joint return or qualifying widow(er) or married filing a separate return and you lived with your spouse at any time during the year, or• \$15,000 for all others	4. _____	15,000
5. Divide line 3 by line 4 and enter the result as a decimal (rounded to at least three places). If the result is 1.000 or more, enter 1.000	5. _____	.067
6. Enter the lesser of: <ul style="list-style-type: none">• \$5,500 (\$6,500 if you are age 50 or older), or• Your taxable compensation	6. _____	5,500
7. Multiply line 5 by line 6	7. _____	369
8. Subtract line 7 from line 6. Round the result up to the nearest \$10. If the result is less than \$200, enter \$200	8. _____	5,140
9. Enter contributions for the year to other IRAs	9. _____	0
10. Subtract line 9 from line 6	10. _____	5,500
11. Enter the lesser of line 8 or line 10. This is your reduced Roth IRA contribution limit	11. _____	5,140

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If you timely filed your 2013 tax return without withdrawing a contribution that you made in 2013, you can still have the contribution returned to you within 6 months of the due date of your 2013 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.

Applying excess contributions. If contributions to your Roth 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.

Can You Move Amounts Into a Roth IRA?

You may be able to convert amounts from either a traditional, SEP, or SIMPLE IRA into a Roth IRA. You may be able to roll over amounts from a qualified retirement plan to a

Roth IRA. You may be able to recharacterize contributions made to one IRA as having been made directly to a different IRA. You can roll amounts over from a designated Roth account or from one Roth IRA to another Roth IRA.

Conversions

You can convert a traditional IRA to a Roth IRA. The conversion is treated as a rollover, regardless of the conversion method used. Most of the rules for rollovers, described in chapter 1 under *Rollover From One IRA Into Another*, apply to these rollovers. However, the 1-year waiting period does not apply.

Conversion methods. You can convert amounts from a traditional IRA to a Roth IRA in any of the following three ways.

- ***Rollover.*** You can receive a distribution from a traditional IRA and roll it over (contribute it) to a Roth IRA within 60 days after the distribution.
- ***Trustee-to-trustee transfer.*** You can direct the trustee of the traditional IRA to

transfer an amount from the traditional IRA to the trustee of the Roth IRA.

- ***Same trustee transfer.*** If the trustee of the traditional IRA also maintains the Roth IRA, you can direct the trustee to transfer an amount from the traditional IRA to the Roth IRA.

Same trustee. Conversions made with the same trustee can be made by redesignating the traditional IRA as a Roth IRA, rather than opening a new account or issuing a new contract.

Income. You must include in your gross income distributions from a traditional IRA that you would have had to include in income if you had not 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.



If you must include any amount in your gross income, you may have to increase your withholding or make estimated tax payments. See Publication 505,

Tax Withholding and Estimated Tax.

More information. For more information on conversions, see *Converting From Any Traditional IRA Into a Roth IRA* in chapter 1.

Rollover From Employer's Plan Into a Roth IRA

You can roll over into a Roth 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 (including a 401(k) plan);
- Annuity plan;
- Tax-sheltered annuity plan (section 403(b) plan); or
- Governmental deferred compensation plan (section 457 plan).

Any amount rolled over is subject to the same rules for converting a traditional IRA into a Roth IRA. See *Converting From Any Traditional IRA Into a Roth IRA* in chapter 1. Also, the rollover contribution must meet the

rollover requirements that apply to the specific type of retirement plan.

Rollover methods. You can roll over amounts from a qualified retirement plan to a Roth IRA in one of the following ways.

- ***Rollover.*** You can receive a distribution from a qualified retirement plan and roll it over (contribute) to a Roth IRA within 60 days after the distribution. Since the distribution is paid directly to you, the payer generally must withhold 20% of it.
- ***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 Roth IRA. Generally, no tax is withheld from any part of the designated distribution that is directly paid to the trustee of the Roth IRA.

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 Roth IRA. You must make the rollover by a direct trustee-to-trustee transfer into an inherited Roth 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 Publication 575.

Income. You must include in your gross income distributions from a qualified retirement plan that you would have had to include in income if you had not rolled them over into a Roth IRA. You do not include in gross income any part of a distribution from a qualified retirement plan that is a return of contributions (after-tax contributions) to the plan that were taxable to you when paid. These amounts are normally included in income on your return for the year of the rollover from the qualified employer plan to a Roth IRA.



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

For more information on eligible rollover distributions from qualified retirement plans and withholding, see *Rollover From Employer's Plan Into an IRA* in chapter 1.

Military Death Gratuities and Service-members' Group Life Insurance (SGLI) Payments

If you received a military death gratuity or SGLI payment with respect to a death from injury that occurred after October 6, 2001, you can contribute (roll over) all or part of the amount received to your Roth IRA. The contribution is treated as a qualified rollover contribution.

The amount you can roll over to your Roth IRA cannot exceed the total amount that you received reduced by any part of that amount that was contributed to a Coverdell ESA or another Roth IRA. Any military death gratuity

or SGLI payment contributed to a Roth IRA is disregarded for purposes of the 1-year waiting period between rollovers.

The rollover must be completed before the end of the 1-year period beginning on the date you received the payment.

The amount contributed to your Roth IRA is treated as part of your cost basis (investment in the contract) in the Roth IRA that is not taxable when distributed.

Rollover From a Roth IRA

You can withdraw, tax free, all or part of the assets from one Roth IRA if you contribute them within 60 days to another Roth IRA. Most of the rules for rollovers, described in chapter 1 under *Rollover From One IRA Into Another*, apply to these rollovers. However, rollovers from retirement plans other than Roth IRAs are disregarded for purposes of the 1-year waiting period between rollovers.

A rollover from a Roth IRA to an employer retirement plan is not allowed.

A rollover from a designated Roth account can only be made to another designated Roth account or to a Roth IRA.

If you roll over an amount from one Roth IRA to another Roth IRA, the 5-year period used to determine qualified distributions does not change. The 5-year period begins with the first taxable year for which the contribution was made to the initial Roth IRA. See *What are Qualified Distributions*, later.

Rollover of Exxon Valdez Settlement Income

If you are a qualified taxpayer (defined in chapter 1, earlier) and you received qualified settlement income (defined in chapter 1, earlier), you can contribute all or part of the amount received to an eligible retirement plan which includes a Roth IRA. The rules for contributing qualified settlement income to a Roth IRA are the same as the rules for contributing qualified settlement income to a traditional IRA with the following exception. Qualified settlement income that is

contributed to a Roth IRA, or to a designated Roth account, will be:

- Included in your taxable income for the year the qualified settlement income was received, and
- Treated as part of your cost basis (investment in the contract) in the Roth IRA that is not taxable when distributed.

For more information, see Rollover of Exxon Valdez Settlement Income in chapter 1.

Rollover of Airline Payments

If you are a qualified airline employee (defined next), you may contribute any portion of an airline payment (defined below) you receive to a Roth IRA. The contribution must be made within 180 days from the date you received the payment. The contribution will be treated as a qualified rollover contribution. The rollover contribution is included in income to the extent it would be included in income if it were not part of the rollover contribution. Also, any reduction in the airline payment amount on account of

employment taxes shall be disregarded when figuring the amount you can contribute to your Roth IRA.

Qualified airline employee. A current or former employee of a commercial airline carrier who was a participant in a qualified defined benefit plan maintained by the carrier which was terminated or became subject to restrictions under Section 402(b) of the Pension Protection Act of 2006. These provisions also apply to surviving spouses of qualified airline employees.

Airline payment. An airline payment is any payment of money or other property that is paid to a qualified airline employee from a commercial airline carrier. The payment also must be made both:

- Under the approval of an order of federal bankruptcy court in a case filed after September 11, 2001, and before January 1, 2007, and
- In respect of the qualified airline employee's interest in a bankruptcy claim against the airline carrier, any note of the

carrier (or amount paid in lieu of a note being issued), or any other fixed obligation of the carrier to pay a lump sum amount.

Any reduction in the airline payment amount on account of employment taxes shall be disregarded when figuring the amount you can roll over to your traditional IRA. Also, an airline payment shall not include any amount payable on the basis of the airline carrier's future earnings or profits.

Are Distributions Taxable?

You do not include in your gross income qualified distributions or distributions that are a return of your regular contributions from your Roth IRA(s). You also do not include distributions from your Roth IRA that you roll over tax free into another Roth IRA. You may have to include part of other distributions in your income. See Ordering Rules for Distributions, later.

Basis of distributed property. The basis of property distributed from a Roth IRA is its fair market value (FMV) on the date of

distribution, whether or not the distribution is a qualified distribution.

Withdrawals of contributions by due date. If you with-draw contributions (including any net earnings on the contributions) by the due date of your return for the year in which you made the contribution, the contributions are treated as if you never made them. If you have an extension of time to file your return, you can withdraw the contributions and earnings by the extended due date. The withdrawal of contributions is tax free, but you must include the earnings on the contributions in income for the year in which you made the contributions.

What Are Qualified Distributions?

A qualified distribution is any payment or distribution from your Roth IRA that meets the following requirements.

1. It is made after the 5-year period beginning with the first taxable year for which a contribution was made to a Roth IRA set up for your benefit, and

2. The payment or distribution is:
 - a. Made on or after the date you reach age 59½,
 - b. Made because you are disabled (defined earlier),
 - c. Made to a beneficiary or to your estate after your death, or
 - d. One that meets the requirements listed under First home under *Exceptions* in chapter 1 (up to a \$10,000 lifetime limit).

Additional Tax on Early Distributions

If you receive a distribution that is not a qualified distribution, you may have to pay the 10% additional tax on early distributions as explained in the following paragraphs.

Distributions of conversion and certain rollover contributions within 5-year period. If, within the 5-year period starting with the first day of your tax year in which you convert an amount from a traditional IRA

or rollover an amount from a qualified retirement plan to a Roth IRA, you take a distribution from a Roth IRA, you may have to pay the 10% additional tax on early distributions. You generally must pay the 10% additional tax on any amount attributable to the part of the amount converted or rolled over (the conversion or rollover contribution) that you had to include in income (recapture amount). A separate 5-year period applies to each conversion and rollover. See Ordering Rules for Distributions, later, to determine the re-capture amount, if any.

The 5-year period used for determining whether the 10% early distribution tax applies to a distribution from a conversion or rollover contribution is separately determined for each conversion and rollover, and is not necessarily the same as the 5-year period used for determining whether a distribution is a qualified distribution. See What Are Qualified Distributions, earlier.

For example, if a calendar-year taxpayer makes a conversion contribution on February

25, 2013, and makes a regular contribution for 2012 on the same date, the 5-year period for the conversion begins January 1, 2013, while the 5-year period for the regular contribution begins on January 1, 2012.

Unless one of the exceptions listed later applies, you must pay the additional tax on the portion of the distribution attributable to the part of the conversion or rollover contribution that you had to include in income because of the conversion or rollover.

You must pay the 10% additional tax in the year of the distribution, even if you had included the conversion or rollover contribution in an earlier year. You also must pay the additional tax on any portion of the distribution attributable to earnings on contributions.

Other early distributions. Unless one of the exceptions listed below applies, you must pay the 10% additional tax on the taxable part of any distributions that are not qualified distributions.

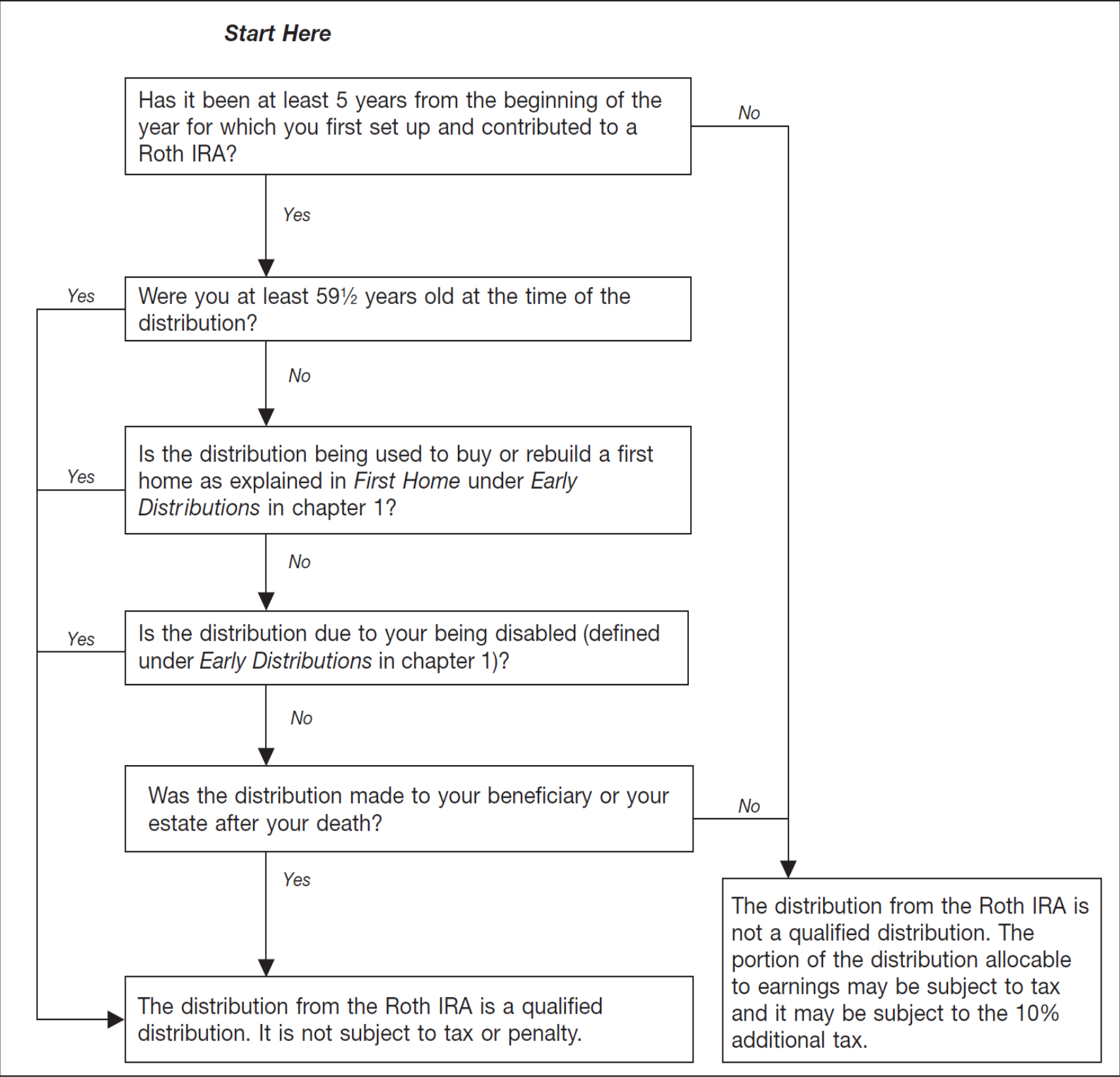
Exceptions. You may not have to pay the 10% additional tax in the following situations.

- You have reached age 59½.
- You are totally and permanently disabled.
- You are the beneficiary of a deceased IRA owner.
- You use the distribution to buy, build, or rebuild a first home.
- The distributions are part of a series of substantially equal payments.
- You have unreimbursed medical expenses that are more than 10% (or 7.5% if you or your spouse was born before January 2, 1949) of your adjusted gross income (defined earlier) for the year.
- You are paying medical insurance premiums during a period of unemployment.
- The distributions are not more than your qualified higher education expenses.

- The distribution is due to an IRS levy of the qualified plan.
- The distribution is a qualified reservist distribution.

Most of these exceptions are discussed earlier in chapter 1 under *Early Distributions*.

Figure 2-1. Is the Distribution From Your Roth IRA a Qualified Distribution?



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Ordering Rules for Distributions

If you receive a distribution from your Roth IRA that is not a qualified distribution, part of it may be taxable. There is a set order in which contributions (including conversion contributions and rollover contributions from qualified retirement plans) and earnings are considered to be distributed from your Roth IRA. For these purposes, disregard the withdrawal of excess contributions and the earnings on them (discussed earlier under *What if You Contribute Too Much*). Order the distributions as follows.

1. Regular contributions.
2. Conversion and rollover contributions, on a first-in, first-out basis (generally, total conversions and rollovers from the earliest year first). See *Aggregation (grouping and adding) rules*, later. Take these conversion and rollover contributions into account as follows:
 - a. Taxable portion (the amount required to be included in gross

income because of the conversion or rollover) first, and then the

b. Nontaxable portion.

3. Earnings on contributions.

Disregard rollover contributions from other Roth IRAs for this purpose.

Aggregation (grouping and adding)

rules. Determine the taxable amounts distributed (withdrawn), distributions, and contributions by grouping and adding them together as follows.

- Add all distributions from all your Roth IRAs during the year together.
- Add all regular contributions made for the year (including contributions made after the close of the year, but before the due date of your return) together. Add this total to the total undistributed regular contributions made in prior years.
- Add all conversion and rollover contributions made during the year together. For purposes of the ordering rules, in the case of any conversion or

rollover in which the conversion or rollover distribution is made in 2013 and the conversion or rollover contribution is made in 2014, treat the conversion or rollover contribution as contributed before any other conversion or rollover contributions made in 2014.

Add any recharacterized contributions that end up in a Roth IRA to the appropriate contribution group for the year that the original contribution would have been taken into account if it had been made directly to the Roth IRA.

Disregard any recharacterized contribution that ends up in an IRA other than a Roth IRA for the purpose of grouping (aggregating) both contributions and distributions. Also disregard any amount withdrawn to correct an excess contribution (including the earnings withdrawn) for this purpose.

Example. On October 15, 2009, Justin converted all \$80,000 in his traditional IRA to his Roth IRA. His Forms 8606 from prior years show that \$20,000 of the amount converted is his basis.

Justin included \$60,000 (\$80,000 – \$20,000) in his gross income.

On February 23, 2013, Justin made a regular contribution of \$5,000 to a Roth IRA. On November 8, 2013, at age 60, Justin took a \$7,000 distribution from his Roth IRA.

The first \$5,000 of the distribution is a return of Justin's regular contribution and is not includible in his income.

The next \$2,000 of the distribution is not includible in income because it was included previously.

Figuring your recapture amount. If you had an early distribution from your Roth IRAs in 2013, you must allocate the early distribution by using the Recapture Amount—Allocation Chart, later.

Amount to include on Form 5329, line 1. Include on line 1 of your 2013 Form 5329 the following four amounts from the Recapture Amount—Allocation Chart that you filled out.

- The amount you allocated to line 20 of your 2013 Form 8606.

- The amount(s) allocated to your 2009 through 2013 Forms 8606, line 18, and your 2010 Form 8606, line 23.
- The amount(s) allocated to your 2009, 2011, 2012, and 2013 Forms 1040, line 16b; Forms 1040A, line 12b; and Forms 1040NR, line 17b.
- The amount from your 2013 Form 8606, line 25.

Also, include any amount you allocated to line 20 of your 2013 Form 8606 on your 2013 Form 5329, line 2, and enter exception number 09.

Example. Ishmael, age 32, opened a Roth IRA in 2000. He made the maximum contributions to it every year. In addition, he made the following transactions into his Roth IRA.

- In 2005, he converted \$10,000 from his traditional IRA into his Roth IRA. He filled out a 2005 Form 8606 and attached it with his 2005 Form 1040. He entered \$0 on line 17 of Form 8606 because he took a deduction for all the contributions to the

traditional IRA, therefore he has no basis. He entered \$10,000 on line 18 of Form 8606.

- In 2011, he rolled over the entire balance of his qualified retirement plan, \$20,000, into a Roth IRA when he changed jobs. He used a 2011 Form 1040 to file his taxes. He entered \$20,000 on line 16a of Form 1040 because that was the amount reported in box 1 of his 2011 Form 1099-R. Box 5 of his 2011 Form 1099-R reported \$0 since he did not make any after-tax contributions to the qualified retirement plan. He entered \$20,000 on line 16b of Form 1040 since that is the tax-able amount that was rolled over in 2011.

The total balance in his Roth IRA as of January 1, 2013 was \$105,000 (\$50,000 in contributions from 2000 through 2012 + \$10,000 from the 2005 conversion + \$20,000 from the 2011 rollover + \$25,000 from earnings). He has not taken any early distribution from his Roth IRA before 2013. In

2013, he made the maximum contribution of \$5,500 to his Roth IRA.

In August of 2013, he took a \$85,500 early distribution from his Roth IRA to use as a down payment on the purchase of his first home. See his filled out Illustrated Recapture Amount—Allocation Chart, later, to see how he allocated the amounts from the above transactions. Based on his allocation, he would enter \$20,000 on his 2013 Form 5329, line 1 (see Amount to include on Form 5329, line 1, above). He should also report \$10,000 on his 2013 Form 5329, line 2, and enter exception 09 since that amount is not subject to the 10% additional tax on early distributions.

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Recapture Amount—Allocation Chart

Enter the amount from your 2013 Form 8606,
line 19

Before you begin: You will need your prior year Form(s) 8606 and income tax return(s) if you entered an amount on any line(s) as indicated below.

You will now allocate the amount you entered above (2013 Form 8606, line 19) in the order shown, to the amounts on the lines listed below (to the extent a prior year distribution was not allocable to the amount). The maximum amount you can enter on each line below is the amount entered on the referenced lines of the form for that year. **Note.** Once you have allocated the full amount from your 2013 Form 8606, line 19, **STOP**. See the [Example](#), earlier.

Tax Year	Your Form	
2013	Form 8606, line 20	Form 8606, line 22
1998	Form 8606, line 16	Form 8606, line 15
1999	Form 8606, line 16	Form 8606, line 15
2000	Form 8606, line 16	Form 8606, line 15
2001	Form 8606, line 18	Form 8606, line 17
2002	Form 8606, line 18	Form 8606, line 17
2003	Form 8606, line 18	Form 8606, line 17
2004	Form 8606, line 18	Form 8606, line 17
2005	Form 8606, line 18	Form 8606, line 17
2006	Form 8606, line 18	Form 8606, line 17
2007	Form 8606, line 18	Form 8606, line 17
2008	Form 8606, line 18 and Form 1040, line 16b; Form 1040A, line 12b; or Form 1040NR, line 17b*	Form 8606, line 17 and Form 1040, line 16a; Form 1040A, line 12a; or Form 1040NR, line 17a**
2009	Form 8606, line 18 and Form 1040, line 16b; Form 1040A, line 12b; or Form 1040NR, line 17b*	Form 8606, line 17 and Form 1040, line 16a; Form 1040A, line 12a; or Form 1040NR, line 17a**
2010	Form 8606, lines 18 and 23	Form 8606, lines 17 and 22
2011	Form 8606, line 18 and Form 1040, line 16b; Form 1040A, line 12b; or Form 1040NR, line 17b*	Form 8606, line 17 and Form 1040, line 16a; Form 1040A, line 12a; or Form 1040NR, line 17a**
2012	Form 8606, line 18 and Form 1040, line 16b; Form 1040A, line 12b; or Form 1040NR, line 17b*	Form 8606, line 17 and Form 1040, line 16a; Form 1040A, line 12a; or Form 1040NR, line 17a**
2013	Form 8606, line 18 and Form 1040, line 16b; Form 1040A, line 12b; or Form 1040NR, line 17b*	Form 8606, line 17 and Form 1040, line 16a; Form 1040A, line 12a; or Form 1040NR, line 17a**
2013	Form 8606, line 25	

*Only include those amounts rolled over to a Roth IRA.

**Only include any contributions (usually Form 1099-R, box 5) that were taxable to you when made and rolled over to a Roth IRA.

Illustrated Recapture Amount—Allocation Chart

Enter the amount from your 2013 Form 8606,
 line 19 **\$85,500**

Before you begin: You will need your prior year Form(s) 8606 and income tax return(s) if you entered an amount on any line(s) as indicated below.

You will now allocate the amount you entered above (2013 Form 8606, line 19) in the order shown, to the amounts on the lines listed below (to the extent a prior year distribution was not allocable to the amount). The maximum amount you can enter on each line below is the amount entered on the referenced lines of the form for that year. **Note.** Once you have allocated the full amount from your 2013 Form 8606, line 19, **STOP**. See the [Example](#), earlier.

Tax Year	Your Form		
2013	Form 8606, line 20	\$10,000	Form 8606, line 22 \$55,500
1998	Form 8606, line 16		Form 8606, line 15
1999	Form 8606, line 16		Form 8606, line 15
2000	Form 8606, line 16		Form 8606, line 15
2001	Form 8606, line 18		Form 8606, line 17
2002	Form 8606, line 18		Form 8606, line 17
2003	Form 8606, line 18		Form 8606, line 17
2004	Form 8606, line 18		Form 8606, line 17
2005	Form 8606, line 18	\$10,000	Form 8606, line 17 \$-0-
2006	Form 8606, line 18		Form 8606, line 17
2007	Form 8606, line 18		Form 8606, line 17
2008	Form 8606, line 18 and Form 1040, line 16b; Form 1040A, line 12b; or Form 1040NR, line 17b*		Form 8606, line 17 and Form 1040, line 16a; Form 1040A, line 12a; or Form 1040NR, line 17a**
2009	Form 8606, line 18 and Form 1040, line 16b; Form 1040A, line 12b; or Form 1040NR, line 17b*		Form 8606, line 17 and Form 1040, line 16a; Form 1040A, line 12a; or Form 1040NR, line 17a**
2010	Form 8606, lines 18 and 23		Form 8606, lines 17 and 22
2011	Form 8606, line 18 and Form 1040, line 16b; Form 1040A, line 12b; or Form 1040NR, line 17b*	\$10,000	Form 8606, line 17 and Form 1040, line 16a; Form 1040A, line 12a; or Form 1040NR, line 17a**
2012	Form 8606, line 18 and Form 1040, line 16b; Form 1040A, line 12b; or Form 1040NR, line 17b*		Form 8606, line 17 and Form 1040, line 16a; Form 1040A, line 12a; or Form 1040NR, line 17a**
2013	Form 8606, line 18 and Form 1040, line 16b; Form 1040A, line 12b; or Form 1040NR, line 17b*		Form 8606, line 17 and Form 1040, line 16a; Form 1040A, line 12a; or Form 1040NR, line 17a**
2013	Form 8606, line 25		

*Only include those amounts rolled over to a Roth IRA.
 **Only include any contributions (usually Form 1099-R, box 5) that were taxable to you when made and rolled over to a Roth IRA.

How Do You Figure the Taxable Part?

To figure the taxable part of a distribution that is not a qualified distribution, complete Form 8606, Part III.

Must You Withdraw or Use Assets?

You are not required to take distributions from your Roth IRA at any age. The minimum distribution rules that apply to traditional IRAs do not apply to Roth IRAs while the owner is alive. However, after the death of a Roth IRA owner, certain of the minimum distribution rules that apply to traditional IRAs also apply to Roth IRAs as explained later under *Distributions After Owner's Death.*

Minimum distributions. You cannot use your Roth IRA to satisfy minimum distribution requirements for your traditional IRA. Nor can you use distributions from traditional IRAs for required distributions from Roth IRAs. See *Distributions to beneficiaries,* later.

Recognizing Losses on Investments

If you have a loss on your Roth IRA investment, you can recognize the loss on your income tax return, but only when all the amounts in all of your Roth IRA accounts have been distributed to you and the total distributions are less than your unrecovered basis.

Your basis is the total amount of contributions in your Roth IRAs.

You claim the loss as a miscellaneous itemized deduction, subject to the 2%-of-adjusted-gross-income limit that applies to certain miscellaneous itemized deductions on Schedule A (Form 1040). Any such losses are added back to taxable income for purposes of calculating the alternative minimum tax.

Distributions After Owner's Death

If a Roth IRA owner dies, the minimum distribution rules that apply to traditional IRAs apply to Roth IRAs as though the Roth IRA owner died before his or her required

beginning date. See *When Can You Withdraw or Use Assets?* in chapter 1.

Distributions to beneficiaries. Generally, the entire interest in the Roth IRA must be distributed by the end of the fifth calendar year after the year of the owner's death unless the interest is payable to a designated beneficiary over the life or life expectancy of the designated beneficiary. (See *When Must You Withdraw Assets? (Required Minimum Distributions)* in chapter 1.)

If paid as an annuity, the entire interest must be payable over a period not greater than the designated beneficiary's life expectancy and distributions must begin before the end of the calendar year following the year of death. Distributions from another Roth IRA cannot be substituted for these distributions unless the other Roth IRA was inherited from the same decedent.

If the sole beneficiary is the spouse, he or she can either delay distributions until the decedent would have reached age 70½ or treat the Roth IRA as his or her own.

Combining with other Roth IRAs. A beneficiary can combine an inherited Roth IRA with another Roth IRA maintained by the beneficiary only if the beneficiary either:

- Inherited the other Roth IRA from the same decedent, or
- Was the spouse of the decedent and the sole beneficiary of the Roth IRA and elects to treat it as his or her own IRA.

Distributions that are not qualified distributions. If a distribution to a beneficiary is not a qualified distribution, it is generally includible in the beneficiary's gross income in the same manner as it would have been included in the owner's income had it been distributed to the IRA owner when he or she was alive.

If the owner of a Roth IRA dies before the end of:

- The 5-year period beginning with the first taxable year for which a contribution was made to a Roth IRA set up for the owner's benefit, or

- The 5-year period starting with the year of a conversion contribution from a traditional IRA or a rollover from a qualified retirement plan to a Roth IRA,

each type of contribution is divided among multiple beneficiaries according to the pro-rata share of each. See Ordering Rules for Distributions, earlier in this chapter under *Are Distributions Taxable*.

Example. When Ms. Hibbard died in 2013, her Roth IRA contained regular contributions of \$4,000, a conversion contribution of \$10,000 that was made in 2009, and earnings of \$2,000. No distributions had been made from her IRA. She had no basis in the conversion contribution in 2009.

When she established this Roth IRA (her first) in 2009, she named each of her four children as equal beneficiaries. Each child will receive one-fourth of each type of contribution and one-fourth of the earnings. An immediate distribution of \$4,000 to each child will be treated as \$1,000 from regular contributions, \$2,500 from conversion contributions, and \$500 from earnings.

In this case, because the distributions are made before the end of the applicable 5-year period for a qualified distribution, each beneficiary includes \$500 in income for 2013. The 10% additional tax on early distributions does not apply because the distribution was made to the beneficiaries as a result of the death of the IRA owner.



If distributions from an inherited Roth IRA are less than the required minimum distribution for the year, discussed in chapter 1 under When Must You Withdraw Assets? (Required Minimum Distributions), you may have to pay a 50% excise tax for that year on the amount not distributed as required. For the tax on excess accumulations (insufficient distributions), see Excess Accumulations (Insufficient Distributions) under What Acts Result in Penalties or Additional Taxes? in chapter 1. If this applies to you, substitute “Roth IRA” for “traditional IRA” in that discussion.

3.

Savings Incentive Match Plans for Employees (SIMPLE)

Introduction

This chapter is for employees who need information about savings incentive match plans for employees (SIMPLE plans). It explains what a SIMPLE plan is, contributions to a SIMPLE plan, and distributions from a SIMPLE plan.

Under a SIMPLE plan, SIMPLE retirement accounts for participating employees can be set up either as:

- Part of a 401(k) plan, or
- A plan using IRAs (SIMPLE IRA).

This chapter only discusses the SIMPLE plan rules that relate to SIMPLE IRAs. See chapter 3 of Publication 560 for information on any special rules for SIMPLE plans that do not use IRAs.



If your employer maintains a SIMPLE plan, you must be notified, in writing, that you can choose the financial institution that will serve as trustee for your SIMPLE IRA and that you can roll over or transfer your SIMPLE IRA to another financial institution. See Rollovers and Transfers Exception, later under When Can You Withdraw or Use Assets.

What Is a SIMPLE Plan?

A SIMPLE plan is a tax-favored retirement plan that certain small employers (including self-employed individuals) can set up for the benefit of their employees. See chapter 3 of Publication 560 for information on the requirements employers must satisfy to set up a SIMPLE plan.

A SIMPLE plan is a written agreement (salary reduction agreement) between you and your employer that allows you, if you are an eligible employee (including a self-employed individual), to choose to:

- Reduce your compensation (salary) by a certain percentage each pay period, and

- Have your employer contribute the salary reductions to a SIMPLE IRA on your behalf. These contributions are called salary reduction contributions.

All contributions under a SIMPLE IRA plan must be made to SIMPLE IRAs, not to any other type of IRA. The SIMPLE IRA can be an individual retirement account or an individual retirement annuity, described in chapter 1.

Contributions are made on behalf of eligible employees. (See Eligible Employees below.) Contributions are also subject to various limits. (See How Much Can Be Contributed on Your Behalf, later.)

In addition to salary reduction contributions, your employer must make either matching contributions or nonelective contributions. See How Are Contributions Made, later.



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

Eligible Employees

You must be allowed to participate in your employer's SIMPLE plan if you:

- Received at least \$5,000 in compensation from your employer during any 2 years prior to the current year, and
- Are reasonably expected to receive at least \$5,000 in compensation during the calendar year for which contributions are made.

Self-employed individual. For SIMPLE plan purposes, the term employee includes a self-employed individual who received earned income.

Excludable employees. Your employer can exclude the following employees from participating in the SIMPLE plan.

- Employees whose retirement benefits are covered by a collective bargaining agreement (union contract).
- Employees who are nonresident aliens and received no earned income from sources within the United States.

- Employees who would not have been eligible employees if an acquisition, disposition, or similar transaction had not occurred during the year.

Compensation. For purposes of the SIMPLE plan rules, your compensation for a year generally includes the following amounts.

- Wages, tips, and other pay from your employer that is subject to income tax withholding.
- Deferred amounts elected under any 401(k) plans, 403(b) plans, government (section 457) plans, SEP plans, and SIMPLE plans.

Self-employed individual compensation.

For purposes of the SIMPLE plan rules, if you are self-employed, your compensation for a year is your net earnings from self-employment (Schedule SE (Form 1040), Section A, line 4, or Section B, line 6) before subtracting any contributions made to a SIMPLE IRA on your behalf.

For these purposes, net earnings from self-employment include services performed while

claiming exemption from self-employment tax as a member of a group conscientiously opposed to social security benefits.

How Are Contributions Made?

Contributions under a salary reduction agreement are called salary reduction contributions. They are made on your behalf by your employer. Your employer must also make either matching contributions or nonelective contributions.

Salary reduction contributions. During the 60-day period before the beginning of any year, and during the 60-day period before you are eligible, you can choose salary reduction contributions expressed either as a percentage of compensation, or as a specific dollar amount (if your employer offers this choice). You can choose to cancel the election at any time during the year.

Salary reduction contributions are also referred to as "elective deferrals."

Your employer cannot place restrictions on the contributions amount (such as by limiting

the contributions percentage), except to comply with the salary reduction contributions limit, discussed under *How Much Can Be Contributed on Your Behalf*, later.

Matching contributions. Unless your employer chooses to make nonelective contributions, your employer must make contributions equal to the salary reduction contributions you choose (elect), but only up to certain limits. See *How Much Can Be Contributed on Your Behalf* below. These contributions are in addition to the salary reduction contributions and must be made to the SIMPLE IRAs of all eligible employees (defined earlier) who chose salary reductions. These contributions are referred to as matching contributions.

Matching contributions on behalf of a self-employed individual are not treated as salary reduction contributions.

Nonelective contributions. Instead of making matching contributions, your employer may be able to choose to make nonelective contributions on behalf of all eligible employees. These nonelective

contributions must be made on behalf of each eligible employee who has at least \$5,000 of compensation from your employer, whether or not the employee chose salary reductions.

One of the requirements your employer must satisfy is notifying the employees that the election was made. For other requirements that your employer must satisfy, see chapter 3 of Publication 560.

How Much Can Be Contributed on Your Behalf?

The limits on contributions to a SIMPLE IRA vary with the type of contribution that is made.

Salary reduction contributions limit.

Salary reduction contributions (employee-chosen contributions or elective deferrals) that your employer can make on your behalf under a SIMPLE plan are limited to \$12,000 for 2013. The limitation remains at \$12,000 for 2014.



If you are a participant in any other employer plans during 2013 and you

have elective salary reductions or deferred compensation under those plans, the salary reduction contributions under the SIMPLE plan also are included in the annual limit of \$17,500 for 2013 on exclusions of salary reductions and other elective deferrals. You, not your employer, are responsible for monitoring compliance with these limits.

Additional elective deferrals can be contributed to your SIMPLE plan if:

- You reached age 50 by the end of 2013, and
- No other elective deferrals can be made for you to the plan for the year because of limits or restrictions, such as the regular annual limit.

The most that can be contributed in additional elective deferrals to your SIMPLE plan is the lesser of the following two amounts.

- \$2,500 for 2013, or
- Your compensation for the year reduced by your other elective deferrals for the year.

The additional deferrals are not subject to any other contribution limit and are not taken into account in applying other contribution limits. The additional deferrals are not subject to the nondiscrimination rules as long as all eligible participants are allowed to make them.

Matching employer contributions limit.

Generally, your employer must make matching contributions to your SIMPLE IRA in an amount equal to your salary reduction contributions. These matching contributions cannot be more than 3% of your compensation for the calendar year. See *Matching contributions less than 3%* below.

Example 1. In 2013, Joshua was a participant in his employer's SIMPLE plan. His compensation, before SIMPLE plan contributions, was \$41,600 (\$800 per week). Instead of taking it all in cash, Joshua elected to have 12.5% of his weekly pay (\$100) contributed to his SIMPLE IRA. For the full year, Joshua's salary reduction contributions were \$5,200, which is less than the \$12,000 limit on these contributions.