

Publication 590-B

Distributions from Individual Retirement Arrangements (IRAs)

For use in preparing
2023 Returns

Volume 2 of 4



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One-time transfer. Generally, only one qualified HSA funding distribution is allowed during your lifetime. If you own two or more IRAs, and want to use amounts in multiple IRAs to make a qualified HSA funding distribution, you must first make an IRA-to-IRA transfer of the amounts to be distributed into a single IRA, and then make the one-time qualified HSA funding distribution from that IRA.

Testing period rules apply. If at any time during the testing period you cease to meet all requirements to be an eligible individual, the amount of the qualified HSA funding distribution is included in your gross income. The qualified HSA funding distribution is included in gross income in the tax year you first fail to be an eligible individual. This amount is subject to the 10% additional tax (unless the failure is due to disability or death).

More information. See Pub. 969 for additional information about this distribution.

Ordinary income. Distributions from traditional IRAs that you include in income are taxed as ordinary income.

No special treatment. In figuring your tax, you can't use the 10-year tax option or capital gain treatment that applies to lump-sum distributions from qualified retirement plans.



If you were affected by a qualified disaster, see chapter 3.

Distributions Fully or Partly Taxable

Distributions from your traditional IRA may be fully or partly taxable, depending on whether your IRA includes any nondeductible contributions.

Jim’s Illustrated 2023 QCD Adjustment Worksheet

Keep for Your Records 

1.	Enter the total amounts of contributions deducted in prior years that you were age 70½ or older that did not reduce the excludable amount of qualified charitable contributions in prior years.	1.	-0-
2.	Enter the total amounts contributed and deducted during the current year if you were age 70½ (or older) at the end of the year. If this is your first QCD worksheet, also include contributions you deducted in prior years during which you were age 70½ (or older) at the end of the year.	2.	10,000
3.	Add the amounts on lines 1 and 2.	3.	10,000
4.	Enter the total amounts of qualified charitable distributions made during the current year, not to exceed \$100,000.	4.	6,000
5.	Subtract line 3 from line 4. This is the amount of your excludable qualified charitable distribution for the current year.*	5.	(\$4,000)
*If zero or less, you have no excludable qualified charitable distribution. If greater than zero, enter -0- on line 1 of your subsequent QCD worksheet. If less than zero, enter the amount as a positive amount on line 1 of your subsequent QCD worksheet.			

Jim’s Illustrated 2024 QCD Adjustment Worksheet

Keep for Your Records 

1.	Enter the total amounts of contributions deducted in prior years that you were age 70 ^{1/2} or older that did not reduce the excludable amount of qualified charitable contributions in prior years.	1.	4,000
2.	Enter the total amounts contributed and deducted during the current year if you were age 70 ^{1/2} (or older) at the end of the year. If this is your first QCD worksheet, also include contributions you deducted in prior years during which you were age 70 ^{1/2} (or older) at the end of the year.	2.	-0-
3.	Add the amounts on lines 1 and 2.	3.	4,000
4.	Enter the total amounts of qualified charitable distributions made during the current year, not to exceed \$100,000.	4.	6,500
5.	Subtract line 3 from line 4. This is the amount of your excludable qualified charitable distribution for the current year.*	5.	\$2,500
*If zero or less, you have no excludable qualified charitable distribution. If greater than zero, enter -0- on line 1 of your subsequent QCD worksheet. If less than zero, enter the amount as a positive amount on line 1 of your subsequent QCD worksheet.			

Fully taxable. If only deductible contributions were made to your traditional IRA (or IRAs, if you have more than one), you have no basis in your IRA. Because you have no basis in your IRA, any distributions are fully taxable when received. See Reporting and Withholding Requirements for Taxable Amounts, later.

Partly taxable. If you made nondeductible contributions or rolled over any after-tax amounts to any of your traditional IRAs, you have a cost basis (investment in the contract) equal to the amount of those contributions. These nondeductible contributions aren't taxed when they are distributed to you. They are a return of your investment in your IRA.

Only the part of the distribution that represents nondeductible contributions and rolled over after-tax amounts (your cost basis) is tax free. If nondeductible contributions have been made or after-tax amounts have been rolled over to your IRA,

distributions consist partly of nondeductible contributions (basis) and partly of deductible contributions, earnings, and gains (if there are any). Until all of your basis has been distributed, each distribution is partly nontaxable and partly taxable.

Form 8606. You must complete Form 8606, and attach it to your return, if you receive a distribution from a traditional IRA and have ever made nondeductible contributions or rolled over after-tax amounts to any of your traditional IRAs. Using the form, you will figure the nontaxable distributions for 2023, and your total IRA basis for 2023 and earlier years. See the illustrated Forms 8606 in this chapter.

Note. If you are required to file Form 8606, but you aren't required to file an income tax return, you must still file Form 8606. Complete Form 8606, sign it, and send it to the IRS at the time and place you would otherwise file an income tax return.

Figuring the Nontaxable and Taxable Amounts

If your traditional IRA includes nondeductible contributions and you received a distribution from it in 2023, you must use Form 8606 to figure how much of your 2023 IRA distribution is tax free.

Note. When figuring the nontaxable and taxable amounts of distributions made prior to death in the year the IRA account owner dies, the value of all traditional (including SEP) and SIMPLE IRAs should be figured as of the date of death instead of December 31.

Contribution and distribution in the same year. If you received a distribution in 2023 from a traditional IRA and you also made contributions to a traditional IRA for 2023 that may not be fully deductible because of the income limits, you can use Worksheet 1-1 to figure how much of your 2023 IRA distribution is tax free and how much is taxable. Then, you can figure the amount of

nondeductible contributions to report on Form 8606. Follow the instructions under Reporting your nontaxable distribution on Form 8606 next to figure your remaining basis after the distribution.

Reporting your nontaxable distribution on Form 8606. To report your nontaxable distribution and to figure the remaining basis in your traditional IRA after distributions, you must complete Worksheet 1-1 before completing Form 8606. Then, follow these steps to complete Form 8606.

1. Use Worksheet 1-2 in chapter 1 of Pub. 590-A, or the IRA Deduction Worksheet in the Form 1040 or 1040-NR instructions to figure your deductible contributions to traditional IRAs to report on Schedule 1 (Form 1040), line 20.
2. After you complete Worksheet 1-2 in chapter 1 of Pub. 590-A or the IRA Deduction Worksheet in the form

instructions, enter your nondeductible contributions to traditional IRAs on line 1 of Form 8606.

3. Complete lines 2 through 5 of Form 8606.
4. If line 5 of Form 8606 is less than line 8 of Worksheet 1-1, complete lines 6 through 15c of Form 8606 and stop here.
5. If line 5 of Form 8606 is equal to or greater than line 8 of Worksheet 1-1, follow instructions 6 and 7 next. Don't complete lines 6 through 12 of Form 8606.
6. Enter the amount from line 8 of Worksheet 1-1 on lines 13 and 17 of Form 8606.
7. Complete line 14 of Form 8606.
8. Enter the amount from line 9 of Worksheet 1-1 (or, if you entered an

amount on line 11, the amount from that line) on line 15a of Form 8606.

Example. Rose Green has made the following contributions to her traditional IRAs.

Year	Deductible	Nondeductible
2016	2,000	-0-
2017	2,000	-0-
2018	2,000	-0-
2019	1,000	-0-
2020	1,000	-0-
2021	1,000	-0-
2022	<u>700</u>	<u>300</u>
Totals	\$9,700	\$300

Rose needs to complete Worksheet 1-1 to determine if her IRA deduction for 2023 will be reduced or eliminated. In 2023, she makes a \$2,000 contribution that may be partly nondeductible. She also receives a distribution of \$5,000 for conversion to a Roth IRA. She completed the conversion before December 31, 2023, and didn't recharacterize any contributions. At the end of 2023, the fair market values of her accounts, including earnings, total \$20,000. She didn't receive any tax-free distributions in earlier years. The amount she includes in income for 2023 is figured on Worksheet 1-1.

The illustrated Form 8606 for Rose shows the information required when you need to use Worksheet 1-1 to figure your nontaxable distribution. Assume that the \$500 entered on Form 8606, line 1, is the amount Rose figured using instructions 1 and 2 given earlier under Reporting your nontaxable distribution on Form 8606.

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Worksheet 1-1. **Figuring the Taxable Part of Your IRA Distribution**

Use only if you made contributions to a traditional IRA for 2023 that may not be fully deductible and have to figure the taxable part of your 2023 distributions to determine your modified AGI. See *Limit if Covered by Employer Plan* in chapter 1 of Pub. 590-A.

Form 8606 and the related instructions will be needed when using this worksheet.

Note. When used in this worksheet, the term “**outstanding rollover**” refers to an amount distributed from a traditional IRA as part of a rollover that, as of December 31, 2023, hadn't yet been reinvested in another traditional IRA, but was still eligible to be rolled over tax free

1. Enter the basis in your traditional IRAs as of December 31, 2022	1. _____
2. Enter the total of all contributions made to your traditional IRAs during 2023 and all contributions made during 2024 that were for 2023, whether or not deductible . Don't include rollover contributions properly rolled over into IRAs. Also, don't include certain returned contributions described in the instructions for line 7 of Form 8606	2. _____
3. Add lines 1 and 2	3. _____
4. Enter the value of all your traditional IRAs as of December 31, 2023 (include any outstanding rollovers from traditional IRAs to other traditional IRAs). Subtract any repayments of qualified disaster distributions	4. _____
5. Enter the total distributions from traditional IRAs (including amounts converted to Roth IRAs that will be shown on line 16 of Form 8606) received in 2023. Also, include repayments of qualified disaster distributions, qualified charitable distributions (QCDs), and a one-time distribution to fund a health savings account (HSA). (Don't include outstanding rollovers included on line 4 or any rollovers between traditional IRAs completed by December 31, 2023. Also, don't include certain returned contributions described in the instructions for line 7 of Form 8606.)	5. _____
6. Add lines 4 and 5	6. _____
7. Divide line 3 by line 6. Enter the result as a decimal (rounded to at least three places). If the result is 1.000 or more, enter 1.000	7. _____
8. Nontaxable portion of the distribution. Multiply line 5 by line 7. Enter the result here and on lines 13 and 17 of Form 8606	8. _____
9. Taxable portion of the distribution (before adjustment for conversions). Subtract line 8 from line 5. Enter the result here, and if there are no amounts converted to Roth IRAs, stop here and enter the result on line 15a of Form 8606	9. _____
10. Enter the amount included on line 9 that is allocable to amounts converted to Roth IRAs by December 31, 2023. (See Note at the end of this worksheet.) Enter here and on line 18 of Form 8606	10. _____
11. Taxable portion of the distribution (after adjustments for conversions). Subtract line 10 from line 9. Enter the result here and on line 15a of Form 8606	11. _____

Note. If the amount on line 5 of this worksheet includes an amount converted to a Roth IRA by December 31, 2023, you must determine the percentage of the distribution allocable to the conversion. To figure the percentage, divide the amount converted (from line 16 of Form 8606) by the total distributions shown on line 5. To figure the amounts to include on line 10 of this worksheet and on line 18 of Form 8606, multiply line 9 of the worksheet by the percentage you figured.

Worksheet 1-1. **Figuring the Taxable Part of Your IRA Distribution—Illustrated**

Use only if you made contributions to a traditional IRA for 2023 that may not be fully deductible and have to figure the taxable part of your 2023 distributions to determine your modified AGI. See *Limit if Covered by Employer Plan* in chapter 1 of Pub. 590-A.

Form 8606 and the related instructions will be needed when using this worksheet.

Note. When used in this worksheet, the term “**outstanding rollover**” refers to an amount distributed from a traditional IRA as part of a rollover that, as of December 31, 2023, hadn't yet been reinvested in another traditional IRA, but was still eligible to be rolled over tax free.

1. Enter the basis in your traditional IRAs as of December 31, 2022	1. _____	300
2. Enter the total of all contributions made to your traditional IRAs during 2023 and all contributions made during 2024 that were for 2023, whether or not deductible . Don't include rollover contributions properly rolled over into IRAs. Also, don't include certain returned contributions described in the instructions for line 7 of Form 8606	2. _____	2,000
3. Add lines 1 and 2	3. _____	2,300
4. Enter the value of all your traditional IRAs as of December 31, 2023 (include any outstanding rollovers from traditional IRAs to other traditional IRAs). Subtract any repayments of qualified disaster distributions	4. _____	20,000
5. Enter the total distributions from traditional IRAs (including amounts converted to Roth IRAs that will be shown on line 16 of Form 8606) received in 2023. Also, include repayments of qualified disaster distributions, qualified charitable distributions (QCDs), and a one-time distribution to fund a health savings account (HSA). (Don't include outstanding rollovers included on line 4 or any rollovers between traditional IRAs completed by December 31, 2023. Also, don't include certain returned contributions described in the instructions for line 7 of Form 8606.)	5. _____	5,000
6. Add lines 4 and 5	6. _____	25,000
7. Divide line 3 by line 6. Enter the result as a decimal (rounded to at least three places). If the result is 1.000 or more, enter 1.000	7. _____	0.092
8. Nontaxable portion of the distribution. Multiply line 5 by line 7. Enter the result here and on lines 13 and 17 of Form 8606	8. _____	460
9. Taxable portion of the distribution (before adjustment for conversions). Subtract line 8 from line 5. Enter the result here, and if there are no amounts converted to Roth IRAs, stop here and enter the result on line 15a of Form 8606	9. _____	4,540
10. Enter the amount included on line 9 that is allocable to amounts converted to Roth IRAs by December 31, 2023. (See Note at the end of this worksheet.) Enter here and on line 18 of Form 8606	10. _____	4,540
11. Taxable portion of the distribution (after adjustments for conversions). Subtract line 10 from line 9. Enter the result here and on line 15a of Form 8606	11. _____	-0-

Note. If the amount on line 5 of this worksheet includes an amount converted to a Roth IRA by December 31, 2023, you must determine the percentage of the distribution allocable to the conversion. To figure the percentage, divide the amount converted (from line 16 of Form 8606) by the total distributions shown on line 5. To figure the amounts to include on line 10 of this worksheet and on line 18 of Form 8606, multiply line 9 of the worksheet by the percentage you figured.

Nondeductible IRAs
Attach to 2023 Form 1040, 1040-SR, or 1040-NR.
Go to www.irs.gov/Form8606 for instructions and the latest information.

OMB No. 1545-0074

2023
Attachment
Sequence No. **48**

Name. If married, file a separate form for each spouse required to file 2023 Form 8606. See instructions. <i>Rose Green</i>		Your social security number <i>001-00-0000</i>	
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).		
	Foreign country name	Foreign province/state/county	Foreign postal code

Part I	Nondeductible Contributions to Traditional IRAs and Distributions From Traditional, Traditional SEP, and Traditional SIMPLE IRAs Complete this part only if one or more of the following apply. <ul style="list-style-type: none">You made nondeductible contributions to a traditional IRA for 2023.You took distributions from a traditional, traditional SEP, or traditional SIMPLE IRA in 2023 and you made nondeductible contributions to a traditional IRA in 2023 or an earlier year. For this purpose, a distribution does not include a rollover (other than certain qualified disaster distribution repayments from 2023 Form(s) 8915-F), qualified charitable distribution, one-time distribution to fund an HSA, conversion, recharacterization, or return of certain contributions.You converted part, but not all, of your traditional, traditional SEP, and traditional SIMPLE IRAs to Roth, Roth SEP, or Roth SIMPLE IRAs in 2023 and you made nondeductible contributions to a traditional IRA in 2023 or an earlier year.		
1	Enter your nondeductible contributions to traditional IRAs for 2023, including those made for 2023 from January 1, 2024, through April 15, 2024. See instructions	1	500
2	Enter your total basis in traditional IRAs. See instructions	2	300
3	Add lines 1 and 2	3	800
<div>In 2023, did you take a distribution from traditional, traditional SEP, or traditional SIMPLE IRAs, or make a Roth, Roth SEP, or Roth SIMPLE IRA conversion?</div> <div><input type="checkbox"/> No — Enter the amount from line 3 on line 14. Do not complete the rest of Part I.</div> <div><input type="checkbox"/> Yes — Go to line 4.</div>			
4	Enter those contributions included on line 1 that were made from January 1, 2024, through April 15, 2024	4	0
5	Subtract line 4 from line 3	5	800
6	Enter the value of all your traditional, traditional SEP, and traditional SIMPLE IRAs as of December 31, 2023, plus any outstanding rollovers. Subtract certain repayments of qualified disaster distributions, if any, from 2023 Form(s) 8915-F (see instructions)	6	
7	Enter your distributions from traditional, traditional SEP, and traditional SIMPLE IRAs in 2023. Do not include rollovers (other than repayments of qualified disaster distributions, if any, from 2023 Form(s) 8915-F (see instructions)); qualified charitable distributions; a one-time distribution to fund an HSA; conversions to a Roth, Roth SEP, or Roth SIMPLE IRA; certain returned contributions; or recharacterizations of traditional IRA contributions (see instructions)	7	
8	Enter the net amount you converted from traditional, traditional SEP, and traditional SIMPLE IRAs to Roth, Roth SEP, or Roth SIMPLE IRAs in 2023. Also, enter this amount on line 16	8	
9	Add lines 6, 7, and 8	9	
10	Divide line 5 by line 9. Enter the result as a decimal rounded to at least 3 places. If the result is 1.000 or more, enter "1.000"	10	×
11	Multiply line 8 by line 10. This is the nontaxable portion of the amount you converted to Roth, Roth SEP, or Roth SIMPLE IRAs. Also, enter this amount on line 17	11	
12	Multiply line 7 by line 10. This is the nontaxable portion of your distributions that you did not convert to a Roth, Roth SEP, or Roth SIMPLE IRA	12	
13	Add lines 11 and 12. This is the nontaxable portion of all your distributions	13	460*
14	Subtract line 13 from line 3. This is your total basis in traditional IRAs for 2023 and earlier years	14	340
15a	Subtract line 12 from line 7	15a	
b	Enter the amount on line 15a attributable to qualified disaster distributions, if any, from 2023 Form(s) 8915-F (see instructions). Also, enter this amount on 2023 Form(s) 8915-F, line 18, as applicable (see instructions)	15b	
c	Taxable amount. Subtract line 15b from line 15a. If more than zero, also include this amount on 2023 Form 1040, 1040-SR, or 1040-NR, line 4b	15c	0
Note: You may be subject to an additional 10% tax on the amount on line 15c if you were under age 59½ at the time of the distribution. See instructions.			

Part II

2023 Conversions From Traditional, Traditional SEP, or Traditional SIMPLE IRAs to Roth, Roth SEP, or Roth SIMPLE IRAs

Complete this part if you converted part or all of your traditional, traditional SEP, and traditional SIMPLE IRAs to a Roth, Roth SEP, or Roth SIMPLE IRA in 2023.

16	If you completed Part I, enter the amount from line 8. Otherwise, enter the net amount you converted from traditional, traditional SEP, and traditional SIMPLE IRAs to Roth, Roth SEP, or Roth SIMPLE IRAs in 2023	16	5,000
17	If you completed Part I, enter the amount from line 11. Otherwise, enter your basis in the amount on line 16 (see instructions)	17	460
18	Taxable amount. Subtract line 17 from line 16. If more than zero, also include this amount on 2023 Form 1040, 1040-SR, or 1040-NR, line 4b	18	4,540*

Part III

Distributions From Roth, Roth SEP, or Roth SIMPLE IRAs

Complete this part only if you took a distribution from a Roth, Roth SEP, or Roth SIMPLE IRA in 2023. For this purpose, a distribution does not include a rollover (other than a repayment of a qualified disaster distribution from 2023 Form(s) 8915-F (see instructions)), qualified charitable distribution, one-time distribution to fund an HSA, recharacterization, or return of certain contributions (see instructions).

19	Enter your total nonqualified distributions from Roth, Roth SEP, and Roth SIMPLE IRAs in 2023, including any qualified first-time homebuyer distributions, and any qualified disaster distributions from 2023 Form(s) 8915-F (see instructions)	19	
20	Qualified first-time homebuyer expenses (see instructions). Do not enter more than \$10,000 reduced by the total of all your prior qualified first-time homebuyer distributions	20	
21	Subtract line 20 from line 19. If zero or less, enter -0-	21	
22	Enter your basis in Roth, Roth SEP, and Roth SIMPLE IRA contributions (see instructions). If line 21 is zero, stop here	22	
23	Subtract line 22 from line 21. If zero or less, enter -0- and skip lines 24 and 25. If more than zero, you may be subject to an additional tax (see instructions)	23	
24	Enter your basis in conversions from traditional, traditional SEP, and traditional SIMPLE IRAs and rollovers from qualified retirement plans to a Roth, Roth SEP, or Roth SIMPLE IRA. See instructions	24	
25a	Subtract line 24 from line 23. If zero or less, enter -0- and skip lines 25b and 25c	25a	
b	Enter the amount on line 25a attributable to qualified disaster distributions, if any, from 2023 Form(s) 8915-F (see instructions). Also, enter this amount on 2023 Form(s) 8915-F, line 19, as applicable (see instructions)	25b	
c	Taxable amount. Subtract line 25b from line 25a. If more than zero, also include this amount on 2023 Form 1040, 1040-SR, or 1040-NR, line 4b	25c	

Sign Here Only if You Are Filing This Form by Itself and Not With Your Tax Return

Under penalties of perjury, I declare that I have examined this form, including accompanying attachments, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature

Date

Paid Preparer Use Only

Print/Type preparer's name

Preparer's signature

Date

Check ☐ if self-employed

PTIN

Firm's name

Firm's EIN

Firm's address

Phone no.

Other Special IRA Distribution Situations

Two other special IRA distribution situations are discussed next.

Distribution of an annuity contract from your IRA account. You can tell the trustee or custodian of your traditional IRA account to use the amount in the account to buy an annuity contract for you. You aren't taxed when you receive the annuity contract (unless the annuity contract is being converted to an annuity held by a Roth IRA). You are taxed when you start receiving payments under that annuity contract.

Tax treatment. If only deductible contributions were made to your traditional IRA since it was opened (this includes all your traditional IRAs, if you have more than one), the annuity payments are fully taxable.

If any of your traditional IRAs include both deductible and nondeductible contributions, the annuity payments are taxed as explained

earlier under *Distributions Fully or Partly Taxable*.

Cashing in retirement bonds. When you cash in retirement bonds, you are taxed on the entire amount you receive. If you reach age 70¹/₂ and you have not yet cashed in your retirement bonds, you should include the entire value of the bonds in your income in the year in which you turn 70¹/₂. The value of the bonds is the amount you would have received if you had cashed them in at the end of that year. When you later cash in the bonds, you won't be taxed again.

Reporting and Withholding Requirements for Taxable Amounts

If you receive a distribution from your traditional IRA, you will receive Form 1099-R, or a similar statement. IRA distributions are shown in boxes 1 and 2a of Form 1099-R. A number or letter code in box 7 tells you what type of distribution you received from your IRA.

Number codes. Some of the number codes are explained below. All of the codes are explained in the instructions for recipients on Form 1099-R.

1—Early distribution, no known exception (in most cases, under age 59½).

2—Early distribution, exception applies (under age 59½).

3—Disability.

4—Death.

5—Prohibited transaction.

7—Normal distribution.

8—Excess contributions plus earnings/
excess deferrals (and/or earnings)
taxable in 2023.



If code 1, 5, or 8 appears on your Form 1099-R, you are probably subject to a penalty or additional tax. If code 1 appears, see Early Distributions, later. If code

5 appears, see Prohibited Transactions, later.
If code 8 appears, see Excess Contributions in chapter 1 of Pub. 590-A.

Letter codes. Some of the letter codes are explained below. All of the codes are explained in the instructions for recipients on Form 1099-R.

B—Designated Roth account distribution.

G—Direct rollover of a distribution to a qualified plan, a section 403(b) plan, a governmental section 457(b) plan, or an IRA.

H—Direct rollover of a designated Roth account distribution to a Roth IRA.

J—Early distribution from a Roth IRA, no known exception (in most cases, under age 59½).

N—Recharacterized IRA contribution made for 2023 and recharacterized in 2023.

P—Excess contributions plus earnings/
excess deferrals (and/or earnings)
taxable in 2022.

Q—Qualified distribution from a Roth IRA.

R—Recharacterized IRA contribution made
for 2022 and recharacterized in 2023.

S—Early distribution from a SIMPLE IRA in
the first 2 years, no known exception
(under age 59½).

T—Roth IRA distribution, exception applies.

If the distribution shown on Form 1099-R is
from your IRA, SEP IRA, or SIMPLE IRA, the
small box in box 7 (labeled *IRA/SEP/SIMPLE*)
should be marked with an “X.”



If code J, P, or S appears on your Form 1099-R, you are probably subject to a penalty or additional tax. If code J appears, see Early Distributions, later. If code P appears, see Excess Contributions in chapter 1 of Pub. 590-A. If code S appears,

see Distributions (Withdrawals) *in chapter 3 of Pub. 560.*

Withholding. Federal income tax is withheld from distributions from traditional IRAs unless you choose not to have tax withheld.

If you are receiving periodic payments (payments made in installments at regular intervals over a period of more than 1 year) use Form W-4P to have tax withheld from your IRA. The amount of tax withheld from an annuity or a similar periodic payment is based on your marital status and any adjustments you claim on your Form W-4P.

Complete Form W-4R to have taxes withheld from your nonperiodic payments or eligible rollover distribution from your IRA. Generally, tax will be withheld at a 10% rate on nonperiodic payments.

IRA distributions delivered outside the United States. In general, if you are a U.S. citizen or resident alien and your home

address is outside the United States or its territories, you can't choose exemption from withholding on distributions from your traditional IRA.

To choose exemption from withholding, you must certify to the payer under penalties of perjury that you aren't a U.S. citizen, a resident alien of the United States, or a tax-avoidance expatriate.

Even if this election is made, the payer must withhold tax at the rates prescribed for nonresident aliens.

More information. For more information on withholding on pensions and annuities, see *Pensions and Annuities* in chapter 1 of Pub. 505. For more information on withholding on nonresident aliens and foreign entities, see *Pensions, Annuities, and Alimony* under *Withholding on Specific Income* in Pub. 515.

Reporting taxable distributions on your return. Report fully taxable distributions, including early distributions, on Form 1040, 1040-SR, or 1040-NR, line 4b (no entry is required on line 4a). If only part of the distribution is taxable, enter the total amount on Form 1040, 1040-SR, or 1040-NR, line 4a, and enter the taxable part on Form 1040, 1040-SR, or 1040-NR, line 4b.

Estate tax. Generally, the value of an annuity or other payment receivable by any beneficiary of a decedent's traditional IRA that represents the part of the purchase price contributed by the decedent (or by their former employer(s)) must be included in the decedent's gross estate. For more information, see the instructions for Form 706, Schedule I.

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.
- Having unrelated business income.
- Taking early distributions.
- Allowing excess amounts to accumulate (failing to take required distributions).
- Making excess contributions.

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

This chapter discusses those acts (relating to distributions) 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 invested in nonpublicly traded assets or assets that you directly control, the risk of engaging in a prohibited transaction in connection with your IRA 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 that 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, earlier. 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 later.

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 later.

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, neither you nor your beneficiary is 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 and beneficiaries.
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.](#)

Transactions Not Prohibited

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 for 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 later.

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.



The coins must be in the possession of the custodian or trustee of the IRA. If the owner or the beneficiary of the IRA takes possession of the coins, the coins will be treated as distributed.

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, and not substantially related to the IRA's exempt purpose or function. If the IRA has \$1,000 or more of unrelated trade or business gross income, the IRA must file a Form 990-T, Exempt Organization Business Income Tax Return. An IRA trustee is permitted to file Form 990-T on behalf of the IRA. In the case of an IRA that operates on a calendar year, the Form 990-T must be filed by April 15 following the close of the calendar year. In the case of an IRA that operates on a fiscal year, the Form 990-T must be filed by the 15th day of the 4th month following the close of the fiscal year. See Pub. 598 for more information.

Early Distributions

You must include early distributions of taxable amounts from your traditional IRA in your gross income. Early distributions are also

subject to an additional 10% tax, as discussed later.

Early distributions defined. Early distributions are generally amounts distributed from your traditional IRA account or annuity before you are age 59^{1/2}, or amounts you receive when you cash in retirement bonds before you are age 59^{1/2}.



If you were affected by a qualified disaster, see chapter 3.

Age 59^{1/2} Rule

Generally, if you are under age 59^{1/2}, you must pay a 10% additional tax on the distribution of any assets (money or other property) from your traditional IRA.

Distributions before you are age 59^{1/2} are called “early distributions.”

The 10% additional tax applies to the part of the distribution that you have to include in

gross income. It is in addition to any regular income tax on that amount.

A number of exceptions to this rule are discussed later under *Exceptions*. Also see *Contributions Returned Before Due Date of Return* in chapter 1 of Pub. 590-A.

After age 59¹/2 and before age 72. After you reach age 59¹/2, you can receive distributions without having to pay the 10% additional tax. Even though you can receive distributions after you reach age 59¹/2, distributions aren't required until you reach age 72. See *When Must You Withdraw Assets? (Required Minimum Distributions)*, earlier.

Exceptions

There are several exceptions to the age 59¹/2 rule. Even if you receive a distribution before you are age 59¹/2, you may not have to pay the 10% additional tax if you are in one of the following situations.

- You have unreimbursed medical expenses that are more than 7.5% of your AGI.
- The distribution is for the cost of your medical insurance due to a period of unemployment.
- You are totally and permanently disabled.
- You have been certified as having a terminal illness.
- You are the beneficiary of a deceased IRA owner.
- You are receiving distributions in the form of a series of substantially equal periodic payments.
- The distribution is for your qualified higher education expenses.
- You use the distributions to buy, build, or rebuild a first home.
- The distribution is due to an IRS levy of the IRA or retirement plan.

- The distribution is a qualified reservist distribution.
- The distribution is a qualified birth or adoption distribution.
- The distribution is a qualified disaster distribution or qualified disaster recovery distribution.
- The distribution is a corrective distribution.

Most of these exceptions are explained below.

Note. Distributions that are timely and properly rolled over, as discussed in chapter 1 of Pub. 590-A, aren't subject to either regular income tax or the 10% additional tax. Certain withdrawals of excess contributions after the due date of your return are also tax free and therefore not subject to the 10% additional tax. (See *Excess Contributions Withdrawn After Due Date of Return* in chapter 1 of Pub. 590-A.) This also applies to transfers incident to divorce, as discussed under *Can You Move*

Retirement Plan Assets? in chapter 1 of Pub. 590-A.

Receivership distributions. Early distributions (with or without your consent) from savings institutions placed in receivership are subject to this tax unless one of the above exceptions applies. This is true even if the distribution is from a receiver that is a state agency.

Unreimbursed medical expenses. Even if you are under age 59½, there are certain distribution amounts on which you don't have to pay the 10% additional tax.

If you have unreimbursed medical expenses (that would qualify for a medical deduction) in excess of 7.5% of your (AGI), defined next, you don't have to pay the 10% additional tax on distributions from your IRA up to the amount by which those qualifying medical expenses exceed 7.5% of your (AGI).



You can only take into account unreimbursed medical expenses that you would be able to include in figuring a deduction for medical expenses on Schedule A (Form 1040). You don't have to itemize your deductions to take advantage of this exception to the 10% additional tax.

Adjusted gross income (AGI). This is the amount on Form 1040, 1040-SR, or 1040-NR, line 11.

Medical insurance. Even if you are under age 59^{1/2}, you may not have to pay the 10% additional tax on distributions during the year that aren't more than the amount you paid during the year for medical insurance for yourself, your spouse, and your dependents. You won't have to pay the tax on these amounts if all of the following conditions apply.

- You lost your job.

- You received unemployment compensation paid under any federal or state law for 12 consecutive weeks because you lost your job.
- You receive the distributions during either the year you received the unemployment compensation or the following year.
- You receive the distributions no later than 60 days after you have been reemployed.

Disabled. If you become disabled before you reach age 59^{1/2}, any distributions from your traditional IRA because of your disability aren't subject to the 10% additional tax.

You are considered disabled if you can furnish proof that you can't do any substantial gainful activity because of your physical or mental condition. A physician must determine that your condition can be expected to result in death or to be of long, continued, and indefinite duration.

Beneficiary. If you die before reaching age 59^{1/2}, the assets in your traditional IRA can be distributed to your beneficiary or to your estate without either having to pay the 10% additional tax.

However, if you inherit a traditional IRA from your deceased spouse and elect to treat it as your own (as discussed under *What if You Inherit an IRA*, earlier), any distribution you later receive before you reach age 59^{1/2} may be subject to the 10% additional tax.

Distributions to terminally ill individuals.

You may be able to take a distribution from a qualified retirement plan before reaching age 59^{1/2} and not have to pay the 10% additional tax on early distributions if you receive the distribution on or after the date you have received a certification by a physician that you are terminally ill.

Terminally ill. You are considered terminally ill if you are certified by a physician as having an illness or physical condition which can

reasonably be expected to result in death in 84 months or less after the date of the certification.

Certification of terminal illness. A certification of terminal illness must include the following:

- A statement that the individual's illness or physical condition can be reasonably expected to result in death in 84 months or less after the date of certification.
- A narrative description of the evidence that was used to support the statement of illness or physical condition.
- It must include the name and contact information of the physician making the statement.
- The statement must include the date the physician examined the individual or reviewed the evidence provided by the individual, and the date that the physician signed the certification.

- The statement must include the signature of the physician making the statement, and an attestation from the physician that, by signing the form, the physician confirms that the physician composed the narrative description based on the physician's examination of the individual or the physician's review of the evidence provided by the individual.

However, it is not sufficient evidence for an employee who is a physician to certify the physician's own terminal illness.

Amount may be repaid. You may repay an amount you received because you are certified terminally ill by making one or more contributions to the plan as long as the total of those contributions do not exceed the amount distributed to you as a terminally ill individual.

Certain corrective distributions not subject to 10% early distribution tax.

Beginning with distributions made on December 29, 2022, and after, the 10% additional tax on early distributions will not apply to a corrective IRA distribution, which consists of an excessive contribution (a contribution greater than the IRA contribution limit) and any earnings (the portion of the distribution subject to the 10% additional tax) allocable to the excessive contribution, as long as the corrective distribution is made on or before the due date (including extensions) of the income tax return.

Substantially equal periodic payments.

You can receive distributions from your traditional IRA before age 59½ if they are part of a series of substantially equal payments over your life (or your life expectancy), or over the lives (or the joint life expectancies) of you and your beneficiary, without having to pay the 10% additional tax.

The IRS has provided three general methods of computing the annual distribution amounts for meeting the requirements for a series of substantially equal periodic payments: Notice 2022-6 explains the three methods and identifies tables to be used for 2023 and after. (See Notice 2022-6 at [IRS.gov/irb/2022-05_IRB#NOT-2022-06](https://www.irs.gov/irb/2022-05_IRB#NOT-2022-06)).

The three methods are generally referred to as the required minimum distribution method (RMD method), the fixed amortization method, and the fixed annuitization method. The latter two methods may require professional assistance.



The RMD method, when used for this purpose, results in the exact amount required to be distributed each year, not the minimum amount.



Distributions received as periodic payments on or after December 29, 2022, will not fail to be treated as

substantially equal merely because they are received as an annuity.

Note. For a series of substantially equal periodic payments established in 2022, you may apply the guidance either in Notice 2022-6 at [IRS.gov/irb/ 2022-05 IRB#NOT-2022-06](https://www.irs.gov/irb/2022-05_IRB#NOT-2022-06), or in Revenue Ruling 2002-62 which is on page 710 of Internal Revenue Bulletin 2002-42 at <https://www.irs.gov/pub/irs-irbs/irb02-42.pdf>.

Note. Distributions received as periodic payments on or after December 29, 2022, will not fail to be treated as substantially equal merely because they are received as an annuity.

Recapture tax for changes in distribution method under equal payment exception.

You may have to pay an early distribution recapture tax if you modify (for reasons other than your death or disability) the annual amount distributed to be different from the annual amount determined under the

distribution method that you initially established under the substantially equal periodic payment exception, and if the modification occurs before the date limitation explained in Modification date below.

The recapture tax is imposed with respect to the calendar year in which the modification first occurs. The amount of tax is the amount of early distribution additional taxes that would have been imposed in prior years had the exception not applied in those prior years, plus interest for the deferral periods.

Modification date. The recapture tax applies if you modify the series of payments (other than because of death or disability) before the later of these two dates:

1. The 5th anniversary of the date of the first distribution of the series; or
2. The date you reach age 59½.

However, the following two situations are not treated as a modification of the series for

purposes of the recapture tax: (a) if your account is completely depleted of all assets; or (b) if you make a one-time change to the required minimum distribution method from one of the other methods.

In the event of a modification that triggers the recapture tax, the tax does not apply to any amounts distributed after you reach age 59½.

Report the recapture tax (including the interest on the deferral periods) on line 4 of Form 5329. Attach an explanation to the form. Don't write the explanation next to the line or enter any amount for the recapture on line 1 or 3 of the form.

One-time switch. If you are receiving a series of substantially equal periodic payments, you can make a one-time switch to the required minimum distribution method at any time without incurring the additional tax. Once a change is made, you must follow the

required minimum distribution method in all subsequent years.

Higher education expenses. Even if you are under age 59^{1/2}, if you paid expenses for higher education during the year, part (or all) of any distribution may not be subject to the 10% additional tax. The part not subject to the tax is generally the amount that isn't more than the qualified higher education expenses (defined next) for the year for education furnished at an eligible educational institution (defined below). The education must be for you, your spouse, or the children or grandchildren of you or your spouse.

When determining the amount of the distribution that isn't subject to the 10% additional tax, include qualified higher education expenses paid with any of the following funds.

- Payment for services, such as wages.
- A loan.

- A gift.
- An inheritance given to either the student or the individual making the withdrawal.
- A withdrawal from personal savings (including savings from a qualified tuition program).

Don't include expenses paid with any of the following funds.

- Tax-free distributions from a Coverdell education savings account.
- Tax-free part of scholarships and fellowships.
- Pell grants.
- Employer-provided educational assistance.
- Veterans' educational assistance.
- Any other tax-free payment (other than a gift or inheritance) received as educational assistance.

Qualified higher education expenses.

Qualified higher education expenses are tuition, fees, books, supplies, and equipment required for the enrollment or attendance of a student at an eligible educational institution. They also include expenses for special needs services incurred by or for special needs students in connection with their enrollment or attendance. In addition, if the individual is at least a half-time student, room and board are qualified higher education expenses.

Eligible educational institution. This is any college, university, vocational school, or other postsecondary educational institution eligible to participate in the student aid programs administered by the U.S. Department of Education. It includes virtually all accredited, public, nonprofit, and proprietary (privately owned profit-making) postsecondary institutions. The educational institution should be able to tell you if it is an eligible educational institution.

For more information, see chapter 9 of Pub. 970.

First home. Even if you are under age 59^{1/2}, you don't have to pay the 10% additional tax on up to \$10,000 of distributions you receive to buy, build, or rebuild a first home. To qualify for treatment as a first-time homebuyer distribution, the distribution must meet all the following requirements.

1. It must be used to pay qualified acquisition costs (defined next) before the close of the 120th day after the day you received it.
2. It must be used to pay qualified acquisition costs for the main home of a first-time homebuyer (defined below) who is any of the following.
 - a. Yourself.
 - b. Your spouse.
 - c. Your or your spouse's child.

- d. Your or your spouse's grandchild.
 - e. Your or your spouse's parent or other ancestor.
3. When added to all your prior qualified first-time homebuyer distributions, if any, total qualifying distributions can't be more than \$10,000.



If both you and your spouse are first-time homebuyers (defined later), each of you can receive distributions up to \$10,000 for a first home without having to pay the 10% additional tax.

Qualified acquisition costs. Qualified acquisition costs include the following items.

- Costs of buying, building, or rebuilding a home.
- Any usual or reasonable settlement, financing, or other closing costs.

First-time homebuyer. Generally, you are a first-time homebuyer if you had no present interest in a main home during the 2-year period ending on the date of acquisition of the home which the distribution is being used to buy, build, or rebuild. If you are married, your spouse must also meet this no-ownership requirement.

Date of acquisition. The date of acquisition is the date that:

- You enter into a binding contract to buy the main home for which the distribution is being used, or
- The building or rebuilding of the main home for which the distribution is being used begins.



If you received a distribution to buy, build, or rebuild a first home and the purchase or construction was canceled or delayed, you could generally contribute the amount of the distribution to an IRA within

120 days of the distribution and not pay income tax or the 10% additional tax on early distributions. This contribution is treated as a rollover contribution to the IRA.

Qualified reservist distributions. A

qualified reservist distribution isn't subject to the additional tax on early distributions.

Definition. A distribution you receive is a qualified reservist distribution if the following requirements are met.

- You were ordered or called to active duty after September 11, 2001.
- You were ordered or called to active duty for a period of more than 179 days or for an indefinite period because you are a member of a reserve component.
- The distribution is from an IRA or from amounts attributable to elective deferrals under a section 401(k) or 403(b) plan or a similar arrangement.

- The distribution was made no earlier than the date of the order or call to active duty and no later than the close of the active duty period.

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

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

Qualified birth or adoption distribution. A qualified birth or adoption distribution is any distribution from an applicable eligible retirement plan if made during the 1-year

period beginning on the date on which your child was born or the date on which the legal adoption of your child was finalized.

A qualified birth or adoption distribution must not exceed \$5,000 per taxpayer. In addition, an eligible adoptee is any individual (other than the child of the taxpayer's spouse) who has not reached age 18 or is physically or mentally incapable of self-support.

Amount may be repaid. If you receive a qualified birth or adoption distribution, you can make one or more contributions to an eligible retirement plan during the 3-year period beginning on the day after the date on which such distribution was received. You make this repayment if you are a beneficiary of that plan, the plan accepts rollover contributions, and the total of those contributions does not exceed the amount of the qualified birth or adoption distribution.

In the case of a qualified birth or adoption distribution made on or before December 29, 2022, you can make one or more contributions after the distribution but before January 1, 2026.

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 doesn't 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 ($10\% (0.10) \times \$3,000$). 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 doesn't apply to the part of a distribution that represents a return of your nondeductible contributions (basis).

Excess Accumulations (Insufficient Distributions)

You can't keep amounts in your traditional IRA (including SEP and SIMPLE IRAs)

indefinitely. Generally, you must begin receiving distributions by April 1 of the year following the year in which you reach age 72 (or age 73). The required minimum distribution for any year after the year in which you reach age 72 (or age 73) 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 25% excise tax for that year on the amount not distributed as required.

Additional tax rate for excess accumulations reduced. The additional tax rate for distributions that are less than the required minimum distribution amount (excess accumulations) is reduced to 25% for tax years beginning after December 29, 2022.

You may be subject to a reduced additional tax rate of 10% of the amount not distributed, if, during the correction window, you take a distribution of the amount on which the tax is due and submit a tax return reflecting this additional tax.

The “correction window” is the period of time beginning on the date on which the additional tax is imposed on the distribution shortfall and ends on the earliest of the following dates:

- The date of mailing the deficiency notice with respect to the imposition of this tax, or
- The date the tax is assessed, or
- The last day of the second taxable year that begins after the date of the taxable year in which the additional tax is imposed.

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 for reasonable cause* 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 25% excise tax doesn't 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. You can read the revenue procedure at most IRS offices, at many public libraries, and online at [IRS.gov](https://www.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.

Reporting Additional Taxes

Generally, you must use Form 5329 to report the tax on excess contributions, early distributions, and excess accumulations.

Filing a tax return. If you must file an individual income tax return, complete Form 5329 and attach it to your Form 1040, 1040-SR, or 1040-NR. Enter the total additional taxes due on Schedule 2 (Form 1040), line 8.

Not filing a tax return. If you don't 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, 1040-SR, or 1040-NR. Be sure to include your address on page 1 and your

signature and date on page 2. Enclose, but don't attach, a check or money order made payable to "United States Treasury" for the tax you owe, as shown on Form 5329. Write your social security number and "2023 Form 5329" on your check or money order.

Form 5329 not required. You don't have to use Form 5329 if any of the following situations exists.

- Distribution code 1 (early distribution) is correctly shown in box 7 of Form 1099-R. If you don't owe any other additional tax on a distribution, multiply the taxable part of the early distribution by 10% and enter the result on Schedule 2 (Form 1040), line 8. Enter "No" to the left of the line to indicate that you don't have to file Form 5329. However, if you owe this tax and also owe any other additional tax on a distribution, don't enter this 10% additional tax directly on your Form 1040,

1040-SR, or 1040-NR. 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 isn't subject to the tax on early distributions.
- You have a qualified disaster distribution.

If you **only** owe the additional 10% tax on the full amount of the early distributions, you may be able to report this tax directly on Schedule

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**Additional Taxes on Qualified Plans
(Including IRAs) and Other Tax-Favored Accounts**
Attach to Form 1040, 1040-SR, or 1040-NR.
Go to www.irs.gov/Form5329 for instructions and the latest information.

Name of individual subject to additional tax. If married filing jointly, see instructions. Tom Jones		Your social security number 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	Foreign postal code

If you **only** owe the additional 10% tax on the full amount of the early distributions, you may be able to report this tax directly on Schedule 2 (Form 1040), line 8, without filing Form 5329. See instructions.

Part I Additional Tax on Early Distributions. Complete this part if you took a taxable distribution (other than a qualified disaster 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 Schedule 2 (Form 1040)—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 includible in income (see instructions). 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% (0.10) of line 3. Include this amount on Schedule 2 (Form 1040), line 8 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.	4	300

Part II Additional Tax on Certain Distributions From Education Accounts and ABLE Accounts. Complete this part if you included an amount in income, on Schedule 1 (Form 1040), line 8z, from a Coverdell education savings account (ESA) or a qualified tuition program (QTP), or on Schedule 1 (Form 1040), line 8q, from an ABLE account.

5	Distributions included in income from a Coverdell ESA, a QTP, or an ABLE account	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% (0.10) of line 7. Include this amount on Schedule 2 (Form 1040), line 8	8	

Part III Additional Tax on Excess Contributions to Traditional IRAs. Complete this part if you contributed more to your traditional IRAs for 2023 than is allowable or you had an amount on line 17 of your 2022 Form 5329.

9	Enter your excess contributions from line 16 of your 2022 Form 5329. See instructions. If zero, go to line 15	9	
10	If your traditional IRA contributions for 2023 are less than your maximum allowable contribution, see instructions. Otherwise, enter -0-	10	
11	2023 traditional IRA distributions included in income (see instructions)	11	
12	2023 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 2023 (see instructions)	15	
16	Total excess contributions. Add lines 14 and 15	16	
17	Additional tax. Enter 6% (0.06) of the smaller of line 16 or the value of your traditional IRAs on December 31, 2023 (including 2023 contributions made in 2024). Include this amount on Schedule 2 (Form 1040), line 8	17	

Part IV Additional Tax on Excess Contributions to Roth IRAs. Complete this part if you contributed more to your Roth IRAs for 2023 than is allowable or you had an amount on line 25 of your 2022 Form 5329.

18	Enter your excess contributions from line 24 of your 2022 Form 5329. See instructions. If zero, go to line 23	18	
19	If your Roth IRA contributions for 2023 are less than your maximum allowable contribution, see instructions. Otherwise, enter -0-	19	
20	2023 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 2023 (see instructions)	23	
24	Total excess contributions. Add lines 22 and 23	24	
25	Additional tax. Enter 6% (0.06) of the smaller of line 24 or the value of your Roth IRAs on December 31, 2023 (including 2023 contributions made in 2024). Include this amount on Schedule 2 (Form 1040), line 8	25	

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2.

Roth IRAs

Reminders

Disaster relief. If you were affected by a qualified disaster, see chapter 3.

Designated Roth accounts. Designated Roth accounts are separate accounts under section 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 aren't included in your income. Designated Roth accounts aren't IRAs and shouldn't 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 doesn't impact your eligibility to contribute to the other. See Pub. 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 don't 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 *How Can a Traditional IRA Be Opened?* in chapter 1 of Pub. 590-A.

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, a Roth SEP IRA or a Roth SIMPLE IRA.

Unlike a traditional IRA, you can't deduct contributions to a Roth IRA. But, if you satisfy the requirements, qualified distributions (discussed later) are tax free and you can leave amounts in your Roth IRA as long as you live.



Beginning in 2023, SEP and SIMPLE IRAs can be designated as Roth IRAs.

Traditional IRA. A traditional IRA is any IRA that isn't a Roth IRA or SIMPLE IRA.

Traditional IRAs are discussed in chapter 1.

Are Distributions Taxable?

You don't include in your gross income qualified distributions or distributions that are a return of your regular contributions from your Roth IRA(s). You also don't 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 on the date of distribution, whether or not the distribution is a qualified distribution.

Withdrawals of contributions by due date. If you withdraw 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 tax year for which a contribution was made to a Roth IRA set up for your benefit.
2. The payment or distribution is:
 - a. Made on or after the date you reach age 59^{1/2},
 - 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).



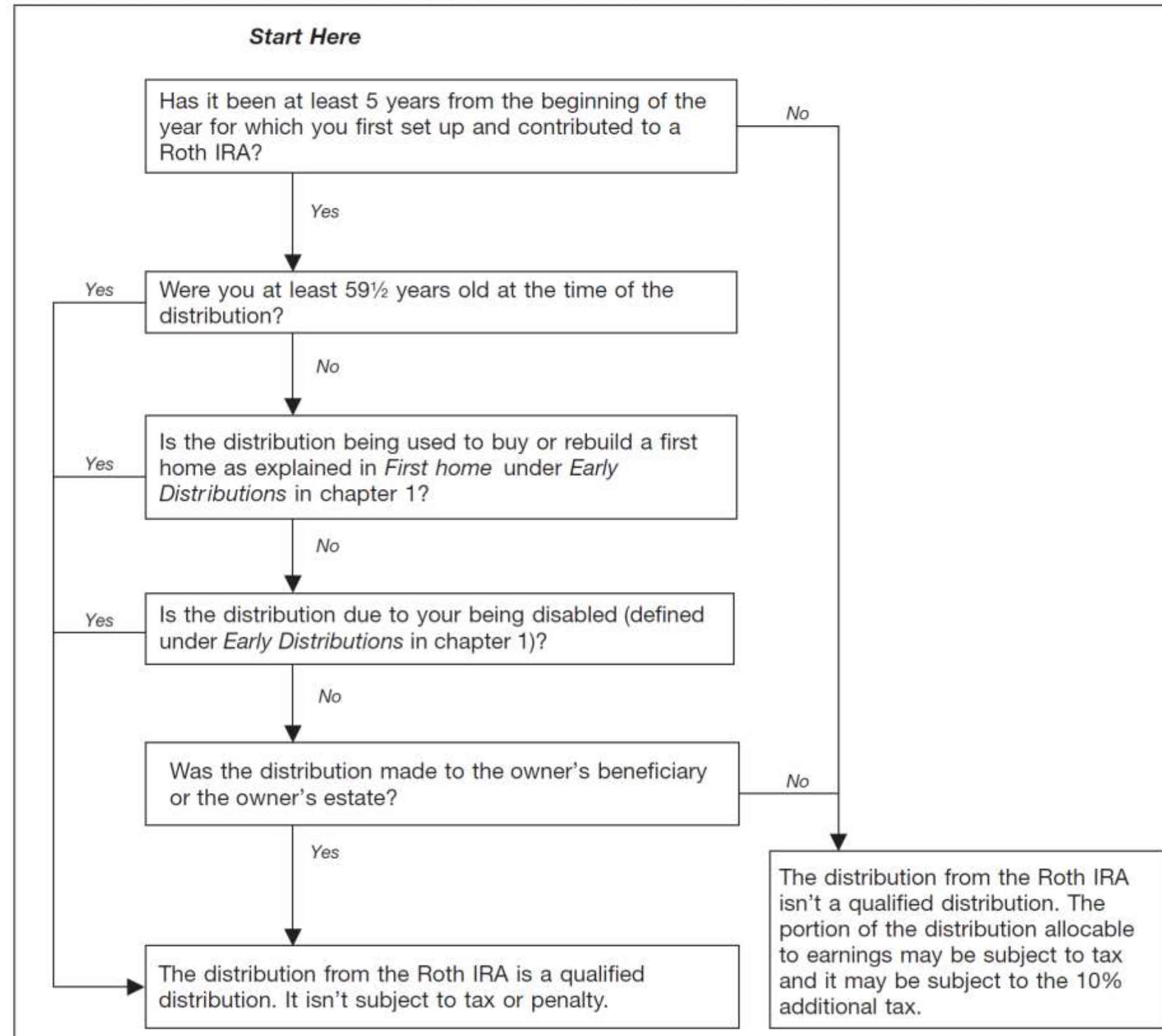
If you were affected by a qualified disaster, see chapter 3.

Additional Tax on Early Distributions

If you receive a distribution that isn't 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 roll over 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.

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



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You must generally 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 recapture 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 isn't 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, 2023, and makes a regular contribution for 2022 on the same date, the 5-year period

for the conversion begins January 1, 2023, while the 5-year period for the regular contribution begins on January 1, 2022.

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 must also pay the additional tax on any portion of the distribution attributable to earnings on contributions.