



MANUAL TRANSMITTAL

Department of the Treasury
Internal Revenue Service

21.6.5

SEPTEMBER 18, 2024

EFFECTIVE DATE

(10-01-2024)

PURPOSE

- (1) This transmits a revised IRM 21.6.5, Individual Tax Returns, Individual Retirement Arrangements (IRA), Coverdell Education Savings Accounts (ESA), Archer Medical Savings Accounts (MSA) and Health Savings Accounts (HSA).

MATERIAL CHANGES

- (1) IRM 21.6.5.1.3 Updated title of section.
- (2) IRM 21.6.5.1.5 Updated title of section.
- (3) IRM 21.6.5.2(3) Added 2024 phase out amounts for IRA deductions. Changes made due to annual cap updates. IPU 24U0771 issued 06-17-2024.
- (4) IRM 21.6.5.3.1(2) Added maximum deductible contribution limits for 2024 to the table. Changes made due to annual cap updates. IPU 24U0771 issued 06-17-2024.
- (5) IRM 21.6.5.3.2(3) Added spousal contribution limits for 2024 to the table. Changes made due to annual cap updates. IPU 24U0771 issued 06-17-2024.
- (6) IRM 21.6.5.3.4(1) Added the annual limit on the amount of employer contributions to an employee's SEP-IRA for 2024. Changes due to annual cap updates. IPU 24U0771 issued 06-17-2024.
- (7) IRM 21.6.5.3.4(1) Deleted the Note.
- (8) IRM 21.6.5.3.5(6) Added annual salary reduction contributions to their SIMPLE IRA for 2024. Changes made due to annual cap updates. IPU 24U0771 issued 06-17-2024.
- (9) IRM 21.6.5.4.4(4) Added a new exception for the 10% tax.
- (10) IRM 21.6.5.4.6.1(1) Added maximum total yearly contribution for traditional and ROTH IRAs combined for 2024. Changes made due to annual cap updates. IPU 24U0771 issued 06-17-2024.
- (11) IRM 21.6.5.4.6.1 Incorporated 21.6.5.4.6.2 and renumbered subsequent subsections.
- (12) IRM 21.6.5.4.6.3(1) Added Roth IRA is phase out limits for 2024. Removed 2019 amounts. Changes due to annual cap updates. IPU 24U0771 issued 06-17-2024.
- (13) IRM 21.6.5.4.7.2(1) Added Qualified Tuition Programs (QTP) as gift tax limitations for 2024. Changes due to annual cap updates. IPU 24U0771 issued 06-17-2024.
- (14) IRM 21.6.5.4.7.2 Added paragraph 9 based on feedback from Chief Council.
- (15) IRM 21.6.5.4.8 Updated annual amounts for deductibles and expenses, also added Form 1099-SA information to paragraph (10).
- (16) IRM 21.6.5.4.9.1(3) Added annual deductibles and maximum out-of-pocket expenses for 2024. Removed 2019 deductibles. Changes made due to annual cap updates. IPU 24U0771 issued 06-17-2024.

- (17) IRM 21.6.5.4.9.2(4) Added maximum annual contributions for 2024. Removed 2019 amounts. Changes due to annual cap updates. IPU 24U0771 issued 06-17-2024.
- (18) IRM 21.6.5.4.9.2 Added 2024 data and definition of “testing period” in the note in (7).
- (19) IRM 21.6.5.4.10.2 Updated with 2024 information.
- (20) IRM 21.6.5.4.11.4(1) Added using REQ77 to input the TC 971 AC 144. Changes made for clarity. IPU 24U0666 issued 05-21-2024
- (21) Editorial changes were made throughout the IRM for clarity. Reviewed and updated plain language, grammar, web addresses, IRM references, Update W&I to TS, and legal references.

EFFECT ON OTHER DOCUMENTS

IRM 21.6.5, Individual Retirement Arrangements (IRA), Coverdell Education Savings Accounts (ESA), Archer Medical Savings Accounts (MSA) and Health Savings Accounts (HSA), dated 9-07-2023 (effective 10-02-2023), is superseded. This IRM incorporates Interim Procedural Updates (IPU): IPU 24U0666 (effective 05-21-2024), and IPU 24U0771 (effective 06-17-2024.)

AUDIENCE

All employees performing account/tax law work.

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Director, Accounts Management
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21.6.5

Individual Retirement Arrangements (IRA), Coverdell Education Savings Accounts (ESA), Archer Medical Savings Accounts (MSA) and Health Savings Accounts (HSA)

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21.6.5.1 (10-01-2021) Program Scope and Objectives

- (1) **Purpose:** This IRM provides instructions to Customer Service Representatives who address various Individual Retirement Arrangements, Education Savings Accounts, Medical Savings Accounts and Health Savings Accounts in performance of their daily duties.
- (2) **Audience:** The primary users of the IRM are all IRS employees in Business Operating Divisions (BODs) who are in contact with taxpayers by telephone, correspondence, or in person.
- (3) **Policy Owner:** The Director of Accounts Management is the policy owner of this IRM.
- (4) **Program Owner:** Accounts Management Policy and Procedures IMF (PPI) is the program owner of this IRM.
- (5) **Primary Stakeholders:** The primary stakeholders are Return Integrity and Verification Operations (RIVO) and Submission Processing.
- (6) **Program Goals:** Program goals for this type of work are:
 - Achieve a high customer accuracy rate for phone calls and paper adjustments related to Individual Retirement Accounts
 - Create efficiency in resolving paper adjustment cases related to Individual Retirement Accounts
 - Perform continuous assessment for program vulnerabilities and opportunities for improvement
 - Produce effective communication with customers

The *Accounts Management Program Letter* on the AM website has more information on these goals.

21.6.5.1.1 (10-01-2021) Background

- (1) Employees in the Accounts Management organization respond to taxpayer inquiries and phone calls, and process claims and internal adjustment requests related to Individual Retirement Accounts (IRAs). Internal transcripts generate for penalty waiver requests. Disaster Relief legislation impacting IRAs is discussed in the Disaster Relief section.

21.6.5.1.2 (10-01-2021) Authority

- (1) The authorities for this IRM include:
 - IRC 72, Annuities; certain proceeds of endowment and life insurance contracts
 - IRC 213, Medical, dental, etc., expenses
 - IRC 401, Qualified pension, profit-sharing, and stock bonus plans
 - IRC 415, Limitations on benefit and contributions under qualified plans
 - IRC 4973, Tax on excess contributions to certain tax-favored accounts and annuities
 - Policy Statement 21-1, Service Commitment to Taxpayers Service Program
 - Policy Statement 21-2, The public impact of clarity, consistency, and impartiality in dealing with tax problems must be given high priority
 - Policy Statement 21-3, Timeliness and Quality of Taxpayer Correspondence
 - Policy Statement 21-4, One-stop service defined

- Policy Statement 21-5, Assistance furnished to taxpayers in the correction of accounts

21.6.5.1.3
(10-01-2024)

Roles and Responsibilities

- (1) The Accounts Management Director oversees the instructions to the employees contained in the IRM content.
- (2) The Accounts Management Policy and Procedures IMF (PPI) Tax Analyst oversees the content in this IRM and acts as a point of contact for all Accounts Management sites.
- (3) Managers and leads ensure compliance with the guidance and procedures in this IRM for Individual Retirement Accounts case resolution.
- (4) Employees resolve Individual Retirement Accounts adjustment requests and penalty waiver requests following procedures in this IRM.

21.6.5.1.4
(10-01-2021)

Program Management and Review

- (1) **Program Effectiveness:** Program Effectiveness is measured and controlled through:
 - a. Managerial reviews
 - b. Quality reviews
 - c. Quarterly PPI review

21.6.5.1.5
(10-01-2024)

Terms and Acronyms

- (1) See the table below for a list of acronyms commonly used in this IRM. For a comprehensive listing of any IRS acronyms, please refer to the *Acronym Database*.

Acronyms	Definition
ABLE	Achieving a Better Life Experience
ESA	Education Savings Account
HDHP	High Deductible Health Plan
HSA	Health Savings Account
IRA	Individual Retirement Arrangement
IRAF	Individual Retirement Account File
LTC	Long-Term Care
MSA	Medical Savings Account
QCD	Qualified Charitable Distribution
QTP	Qualified Tuition Program
SEP	Simplified Employee Pension
SIMPLE	Savings Incentive Match Plan for Employees of Small Employers

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21.6.5.1.6
(10-01-2020)

Related Resources

(1) Related resources for this IRM include (list is not all inclusive):

- Pub 560, Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans)
- Pub 575, Pension and Annuity Income
- Pub 590-A, Contributions to Individual Retirement Arrangements (IRAs)
- Pub 590-B, Distributions from Individual Retirement Arrangements (IRAs)
- Pub 907, Tax Highlights for Persons with Disabilities
- Pub 969, Health Savings Accounts and Other Tax-Favored Health Plans
- Pub 970, Tax Benefits for Education
- Pub 976, Disaster Relief

21.6.5.2
(06-17-2024)

What Is an Individual Retirement Arrangement (IRA)?

(1) An Individual Retirement Arrangement (IRA) is a personal savings plan that gives tax advantages for setting aside money for retirement.

- a. Contributions to the plan may be fully or partially deductible depending on the type of IRA. Contributions to Roth IRAs are not deductible. For more information on Roth IRAs refer to IRM 21.6.5.4.6, Roth Individual Retirement Arrangement (IRA).
- b. The allowable IRA deduction may be less than the contributions if the taxpayer or spouse is covered by an employer retirement plan any time during the year.

(2) Amounts held in an IRA (including earnings) are generally not taxed until distributed. However, qualified distributions from Roth IRAs are not taxed.

(3) If covered by a retirement plan at work, the taxpayer's deduction for contributions to a traditional IRA is reduced (phased out) if the modified adjusted gross income (MAGI) is:

Year	Married Filing Jointly or Qualifying Widow(er)	Single or Head of Household	Married Filing Separately
2024	More than \$123,000 but less than \$143,000	More than \$77,000 but less than \$87,000	Less than \$10,000
2023	More than \$116,000 but less than \$136,000	More than \$73,000 but less than \$83,000	Less than \$10,000
2022	More than \$109,000 but less than \$129,000	More than \$68,000 but less than \$78,000	Less than \$10,000
2021	More than \$105,000 but less than \$125,000	More than \$66,000 but less than \$76,000	Less than \$10,000
2020	More than \$104,000 but less than \$124,000	More than \$65,000 but less than \$75,000	Less than \$10,000

Note: Once the maximum phase out amount is reached, there is no deduction available as the deduction would be completely phased out.

21.6.5.3
(03-18-2021)
**Individual Retirement
Arrangement (IRA)
Research**

- (4) For more information on deductible amounts, refer to *Pub 590-A*, Contributions to Individual Retirement Arrangements (IRAs) and *Pub 590-B*, Distributions from Individual Retirement Arrangements (IRAs).

- (1) Find Individual Retirement Arrangement (IRA) information on the Individual Retirement Account File (IRAF), Master File Tax Code (MFT) 29. Refer to IRM 21.6.5.4.11, Individual Retirement Account File (IRAF) Overview, for researching these accounts.
- (2) Follow procedures in IRM 13.1.7.3, TAS Case Criteria, to determine if taxpayers or cases should be referred to the Taxpayer Advocate Service (TAS), when you cannot resolve the taxpayer's issue the same day. The definition of "same day" is within 24 hours. "Same day" cases include cases you can completely resolve in 24 hours as well as cases in which you have taken steps within 24 hours to begin resolving the taxpayer's issue. Refer to IRM 13.1.7.5, Same Day Resolution by Operations. Do not refer these cases to TAS unless they meet TAS criteria and the taxpayer asks for transfer to TAS. When referring cases to TAS, use Form 911/Form e-911, Request for Taxpayer Advocate Service Assistance (and Application for Taxpayer Assistance Order), and forward to TAS per your local procedures.

Note: The Taxpayer Bill of Rights (TBOR) lists rights that already existed in the tax code, putting them in simple language and grouping them into 10 fundamental rights. Employees are responsible for being familiar with and acting in accord with taxpayer rights. See IRC 7803(a)(3), Execution of Duties in Accord with Taxpayer Rights. For more information about the TBOR, see *Taxpayer Bill of Rights*.

- (3) More information is available in:
- *Pub 590-A*, Contributions to Individual Retirement Arrangements (IRAs) and *Pub 590-B*, Distributions from Individual Retirement Arrangements (IRAs). Refer to these publications for a detailed explanation of IRAs.
 - *Pub 575*, Pension and Annuity Income. Refer to this publication for more information about rollovers.
 - *Pub 560*, Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans). Refer to this publication for more information about Simplified Employee Pensions (SEP), SIMPLE IRA plans and Qualified Plans.
 - *Pub 54*, Tax Guide for U.S. Citizens and Resident Aliens Abroad. Refer to this publication for special rules in determining contribution limitations when U.S. citizens/residents working and living abroad claim the foreign earned income exclusion and/or foreign housing deduction.

21.6.5.3.1
(06-17-2024)
**Traditional Individual
Retirement Arrangement
(IRA)**

- (1) An individual establishes a traditional Individual Retirement Arrangement (IRA). The maximum deductible amount is limited to the least of the following:
- The amount of compensation for the tax year, or
 - The amount of the actual IRA contribution (up to the maximum deductible contribution limit).
- (2) See the table below for the maximum deductible contribution limits.

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Year	Regular	If Age 50 Or Over
2024	\$7,000	\$8,000
2023	\$6,500	\$7,500
2020 - 2022	\$6,000	\$7,000

For more information, refer to *Pub 590-A*, Contributions to Individual Retirement Arrangements (IRAs).

21.6.5.3.2
(06-17-2024)

Spousal Individual Retirement Arrangement (IRA)

- (1) For taxpayers filing a joint return, they may establish an IRA in a spouse's name based on the compensation of the higher-earning spouse.
- (2) There is no provision for a joint IRA.
- (3) See the table below for spousal contribution limits in the case of a married taxpayer filing a joint return.

Year	Regular Spouse	If Spouse Is Age 50 Or Over
2024	\$7,000	\$8,000
2023	\$6,500	\$7,500
2020 - 2022	\$6,000	\$7,000

For more information, refer to Spousal IRA Limits in *Pub 590-A*, Contributions to Individual Retirement Arrangements (IRAs).

- (4) The spousal IRA contribution limit is the smaller of two amounts,
 - the contribution limit above or
 - total compensation includible in the gross income of both spouses for the year,reduced by the following two amounts:
 - a. the higher-earning spouse's traditional IRA contributions, and
 - b. the higher-earning spouse's Roth IRA contributions.

21.6.5.3.3
(10-01-2015)
Accounts or Annuities Deemed Individual Retirement Arrangements

- (1) If a qualified employer plan allows employees to make voluntary employee contributions to a separate account or annuity established under the plan, and under the terms of the qualified employer plan, the account or annuity meets the applicable requirements, then the separate account or annuity will be treated as an IRA.
- (2) This applies to plan years beginning after December 31, 2002.
- (3) Refer to *Pub 590-A*, Contributions to Individual Retirement Arrangements (IRAs), and *Pub 590-B*, Distributions from Individual Retirement Arrangements (IRAs), for more information on Deemed IRAs.

21.6.5.3.4
(10-01-2024)
**Simplified Employee
Pension (SEP)**

- (1) A Simplified Employee Pension (SEP) is a simplified retirement plan under which an employer makes contributions for employees to traditional IRAs or Roth IRAs (SEP-IRAs).
 - a. For tax year 2019 the annual limit on the amount of employer contributions to an employee's SEP-IRA is the smaller of \$56,000 or 25% of the employee's compensation.
 - b. For tax year 2020 the annual limit on the amount of employer contributions to an employee's SEP-IRA is the smaller of \$57,000 or 25% of the employee's compensation.
 - c. For tax year 2021 the annual limit on the amount of employer contributions to an employee's SEP-IRA is the smaller of \$58,000 or 25% of the employee's compensation.
 - d. For tax year 2022 the annual limit on the amount of employer contributions to an employee's SEP-IRA is the smaller of \$61,000 or 25% of the employee's compensation.
 - e. For tax year 2023 the annual limit on the amount of employer contributions to an employee's SEP-IRA is the smaller of \$66,000 or 25% of the employee's compensation.
 - f. For tax year 2024 the annual limit on the amount of employer contributions to an employee's SEP-IRA is the smaller of \$69,000 or 25% of the employee's compensation.
 - g. Special rules apply when computing the maximum deduction for a self-employed person.
 - h. Special rules apply for participation, discrimination, distributions, and contributions for SEPs.
- (2) Depending on the type of IRA, and applicable compensation limits for Roth IRAs, taxpayers may be able to make either traditional or Roth IRA contributions to a SEP-IRA up to the established maximum for traditional IRA or Roth IRA.
- (3) For more information on all the above, refer to Pub 560, Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans).

21.6.5.3.5
(06-17-2024)
**Savings Incentive Match
Plan for Employees
(SIMPLE)**

- (1) A Savings Incentive Match Plan for Employees (SIMPLE) IRA Plan is a simplified retirement plan for small businesses. Generally, employers must have 100 or fewer employees to maintain a SIMPLE IRA Plan. Refer to information in Pub 560, Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans), on the requirements employers must satisfy to set up a SIMPLE plan.
- (2) The employer must make matching contributions or nonelective contributions to each eligible employee's SIMPLE IRA.
- (3) Special rules apply to SIMPLE IRAs. Refer to Pub 560 for more information.
- (4) Taxpayers may not make individual traditional IRA or Roth IRA contributions to SIMPLE IRAs.
- (5) Do not include contributions to a SIMPLE IRA in the traditional IRA contribution limit.
- (6) Under a SIMPLE IRA Plan, an eligible employee may elect to have their employer make limited annual salary reduction contributions to their SIMPLE IRA. Refer to the table below for annual limits on contribution amounts.

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Year	Salary Deferral Limit	If Age 50 Or Over
2024	\$16,000	\$19,500
2023	\$15,500	\$19,000
2022	\$14,000	\$17,000
2021	\$13,500	\$16,500
2020	\$13,500	\$16,500

21.6.5.3.6 (10-01-2020) Individual Retirement Arrangement (IRA) Rollover

- (1) A rollover is a tax-free distribution of cash or other assets from one retirement plan that an individual contributes (rolls over) within 60 days to another retirement plan such as Roth IRAs (IRM 21.6.5.4.6, Roth Individual Retirement Arrangement (IRA)).

Note: The IRS may waive the 60-day requirement where the failure to do so would be against equity or good conscience, such as in the event of casualty, disaster, or other event beyond the taxpayer's reasonable control. Also, a taxpayer may "self-certify" their eligibility for a waiver. For more information refer to "Time Limit for Making a Rollover Contribution" in *Pub 590-A*, Contributions to Individual Retirement Arrangements (IRAs).

- (2) A taxpayer cannot deduct a rollover on the tax return, but the distribution must be reported (even if it is not includible in gross income).
- (3) Required minimum distributions and distributions from inherited IRAs (from someone other than taxpayer's spouse) may not be rolled over.

Note: For more information on inherited IRAs refer to *Pub 590-A* and *Pub 590-B*, Distributions from Individual Retirement Arrangements (IRAs).

- (4) A taxpayer may roll over to an IRA any part (whether taxable or nontaxable) of an eligible rollover distribution from a qualified employer retirement plan.
- (5) Refer to *Pub 590-A* for more information on eligible rollover distributions.
- (6) Only one rollover per one-year period is permitted per taxpayer. This one-per-year limit doesn't apply to a direct transfer from one IRA to another IRA (a "trustee-to-trustee transfer"). Refer to *Pub 590-A* for more information.

21.6.5.4 (10-01-2006) Research and Adjustment Procedures

- (1) This section provides information on:
 - Individual Retirement Arrangements (IRAs)
 - Coverdell Education Savings Accounts (ESAs)
 - Archer Medical Savings Accounts (MSAs) and Long-Term Care Insurance Contracts
 - Health Savings Accounts (HSAs)
 - Achieving a Better Life Experience (ABLE) Accounts
 - Individual Retirement Account File (IRAF) (MFT 29)

21.6.5.4.1
(10-01-2019)

Nondeductible Individual Retirement Arrangement Contributions/Form 8606

- (1) Nondeductible contributions are those contributions to a traditional IRA which are within the contribution limit but do not qualify as deductible or the taxpayer chooses not to deduct them.
- (2) Earnings on nondeductible contributions are not taxed until distributed.
- (3) Nondeductible contributions are not taxed when withdrawn from the IRA.
- (4) Taxpayers use Form 8606, Nondeductible IRAs, to report:
 - Nondeductible IRA contributions
 - Distributions from traditional, SEP, or SIMPLE IRAs, when taxpayers made nondeductible contributions to traditional IRAs
 - Distributions from Roth IRAs
 - Conversions from traditional, SEP, or SIMPLE IRAs to Roth IRAs
- (5) Taxpayers meeting requirements to file Form 8606 must file the form even if they do not file a tax return for the tax year. Refer to *Instructions for Form 8606*, for more information.
- (6) Whenever Accounts Management receives a Form 8606 without a return and the original return has posted, refer to the following table:

If	And	Then
You can determine that no adjustment is necessary	You have the actual Form 8606	Locate and associate the loose form with the controlling document locator number (DLN). Use a Form 3210, Document Transmittal, when forwarding to another location. For original returns filed electronically, refer to IRM 21.6.6.2.25, Electronic Filing System (e-file).
You can determine that no adjustment is necessary	The Form 8606 is scanned into Correspondence Imaging Inventory (CII)	CII images do not have to be associated with the original return. A case note can be added to quickly identify the loose form. Refer to IRM 21.5.1.5.3, CII Source Documentation, for more information.
You cannot determine whether an adjustment is needed	You have the actual Form 8606	<ol style="list-style-type: none"> 1. Return the Form 8606 to the taxpayer. 2. Advise the taxpayer that they are required to file a Form 1040-X, Amended U.S. Individual Income Tax Return, to amend the original return.

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If	And	Then
You cannot determine whether an adjustment is needed	The Form 8606 is scanned into CII	CII images do not have to be returned to the taxpayer. Advise the taxpayer that they are required to file a Form 1040-X to amend the original return.

- (7) Whenever Accounts Management receives a Form 8606 without a return and the original return has not posted, refer to the following table:

Row Number	If	And	Then
1	You can determine that no adjustment is necessary	You have the actual Form 8606	Input a transaction code (TC) 930 push code, if appropriate, to file the information. Refer to IRM 21.5.1.4.4.2, TC 930 Push Codes, and IRM 21.5.1.4.4.3, Inappropriate Use of TC 930 Push Code.
2	You can determine that no adjustment is necessary	The Form 8606 is a scanned CII document	Do not input the push code. Refer to IRM 21.5.1.5.7, CII Push Codes, for more information.
3	You cannot determine whether an adjustment is necessary or if you can determine that an adjustment is needed	You have the actual Form 8606 and there is an indication the return was filed or will be filed. Refer to IRM 21.4.1.4.1, Locating the Taxpayer's Return, for more information. Note: Consider any form received prior to the return due date as an indication the taxpayer will file.	Input a TC 930 push code using your employee number as indicated in IRM 21.5.1.4.4.2, TC 930 Push Codes. Reminder: In certain instances, TC 930 push codes procedures should not be used. Refer to IRM 21.5.1.4.4.3, Inappropriate Use of TC 930 Push Code.
4	You cannot determine whether an adjustment is necessary or if you can determine that an adjustment is needed	The Form 8606 is a scanned CII document and there is an indication the return was filed or will be filed.	Input a TC 930 push code. Refer to IRM 21.5.1.5.7, CII Push Codes, for more information.

Row Number	If	And	Then
5	An adjustment is or isn't needed	You have the actual Form 8606 and there is no indication the return was filed and it is beyond the return due date	<ol style="list-style-type: none"> 1. Return the Form 8606 to the taxpayer. 2. Advise the taxpayer to file the Form 8606 with their Form 1040, U.S. Individual Income Tax Return.
6	An adjustment is or isn't needed	The Form 8606 is a scanned CII document and there is no indication the return was filed and it is beyond the return due date	Do not return CII images to the taxpayer. Advise the taxpayer to file the Form 8606 with their Form 1040.

- (8) If taxpayer is not required to file a return and a Form 8606 is received refer to the following table:

If	And	Then
No return is pending or posted and taxpayer is not required to file a return	You have the actual Form 8606	Forward the Form 8606 to Files on a Form 3210 with the notation "To be filed in Alpha Files".
No return is pending or posted and taxpayer is not required to file a return	The Form 8606 is a scanned CII document	CII images do not have to be associated with a return. A case note can be added to quickly identify the loose form. Refer to IRM 21.5.1.5.3, CII Source Documentation, for more information.

- (9) If the taxpayer submits a \$50 penalty payment, refund payment to taxpayer with a letter explaining the penalty is currently not assessed.

21.6.5.4.2
(10-01-2018)
**Individual Retirement
Arrangement (IRA)
Taxes**

- (1) If the taxpayer does not conform to the rules governing IRAs, additional taxes are assessed. These taxes are assessed on the Individual Master File (IMF) and/or the Individual Retirement Account File (IRAF).
- (2) Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts, is used to report additional taxes on:
 - Individual Retirement Arrangements (IRAs)
 - Other qualified retirement plans
 - Coverdell Education Savings Accounts (ESAs)
 - Qualified Tuition Programs (QTPs)
 - Archer Medical Savings Accounts (MSAs)
 - Health Savings Accounts (HSAs)
 - Achieving a Better Life Experience (ABLE) Accounts

Individual Retirement Arrangements (IRA), Coverdell Education Savings Accounts (ESA), Archer Medical Savings Accounts (MSA) and Health Savings Accounts (HSA) 21.6.5

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21.6.5.4.3 (10-01-2020) **Excess Contributions Tax**

- (1) An excess contribution is an amount contributed to the taxpayer's Individual Retirement Arrangement (IRA) in excess of the amount of compensation for the tax year, or the IRA contribution limit that applies to the taxpayer for that year. Refer to IRM 21.6.5.4.6.1, Contribution Limits, and IRM 21.6.5.3.1, Traditional Individual Retirement Arrangement (IRA), for information about contribution limits.
- (2) The 6% excise tax is assessed on the Individual Retirement Account File (IRAF, MFT 29), each year on any excess amount in an IRA account.
- (3) The 6% excise tax is not assessed if excess contributions, plus earnings, are withdrawn before the return due date, including extensions:
 - a. The 6% tax is assessed for the year an excess contribution was made and each year after, until the taxpayer withdraws, or later exhausts the excess as an allowable current year contribution.
 - b. The IRA owner must pay the tax on excess contributions.
 - c. The tax cannot be more than 6% of the value of the IRA on the last day of the year.

21.6.5.4.4 (10-01-2024) **Early Distributions**

- (1) Early distributions are amounts withdrawn, or considered withdrawn, from an Individual Retirement Arrangement (IRA) before the owner reaches age 59 $\frac{1}{2}$.
- (2) When the IRS issues a levy on an IRA account to cover back taxes, this is a taxable distribution to the account owner even though the funds are transferred directly from the account to the IRS and not actually received by the owner. However, the 10% additional tax does not apply to distributions attributable to an IRS levy. Refer to *Pub 590-A*, Contributions to Individual Retirement Arrangements (IRAs), and *Pub 590-B*, Distributions from Individual Retirement Arrangements (IRAs), for more information.
 - Early distributions are included in gross income and may be subject to 10% additional tax.

Note: Nondeductible contributions are not included in the gross income when distributed.
 - The 10% additional tax is assessed on IMF (MFT 30), not IRAF (MFT 29).
- (3) If a taxpayer borrows from their IRA, or otherwise engages in a prohibited transaction under IRC 4975 with respect to the IRA, then the IRA ceases to be an IRA. The taxpayer is considered to have received a distribution of their entire interest in the IRA. The IRA distribution is equal to the fair market value of the IRA as of January 1st of the taxable year in which the prohibited transaction occurs. In addition, if a taxpayer uses the IRA as security for a loan, the taxpayer is considered to have received a distribution from the IRA of the amount used. These distributions are subject to the 10% tax on early distributions from qualified plans; the taxpayer cannot roll them over.
- (4) The 10% additional tax does not apply to early distributions which are:
 - a. Received after permanent and total disability of the owner.
 - b. Received after the death of the owner.

- c. Rolled over to another retirement plan or IRA (including conversions to Roth IRAs).
- d. Part of a series of substantially equal payments made over the owner's life (or the joint lives of the owner and owner's beneficiary). Refer to Pub 590-B for more information.
- e. Certain returns of contributions, but not the earnings on these contributions.
- f. Used to pay medical expenses in excess of 7.5% of AGI.
- g. Used by certain unemployed or certain self-employed taxpayers to pay health insurance premiums.
- h. Used for qualified higher education expenses.
- i. Distributions (up to \$10,000) used to buy or rebuild a first home.
- j. Qualified reservist distributions.
- k. After 2019, up to \$5,000 for a qualified birth or adoption distribution. Taxpayers must attach to Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts, a statement that provides the name, age, and TIN of the child or eligible adoptee.
- l. An emergency personal expense withdrawal (limited to \$1,000 and only one time per year).

Note: Refer to additional exceptions in the *Instructions for Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts*.

- (5) If the taxpayer has filed an amended return and includes income from an Early Distribution that may be subject to the 10% additional tax, **DO NOT** assess the 10% tax, if the taxpayer does not include the Form 5329. Process the amended return and send the case to Exam after verifying that the early distribution is subject to the 10% tax and meets the following criteria:

#

Note: Do not request the Form 5329 if not included with the amended return.

Refer to Pub 590-A and Pub 590-B for more information.

21.6.5.4.5
(03-09-2023)

Excess Accumulations

- (1) Upon reaching a specific age, the law requires owners of traditional IRAs to start receiving at least minimum distributions from their IRAs (refer to IRM 21.6.5.4.6.6, Minimum Distribution, for required minimum distributions from Roth IRAs).
- (2) The year for which an owner of a traditional IRA must begin required minimum distributions is:

Year Taxpayer Reached Applicable Age	Age To Begin Required Minimum Distribution
2019 or prior	70 $\frac{1}{2}$
2020 - 2022	72
2023 - 2032	73

- (3) Excess accumulations result when actual distributions from an IRA during the year are less than the required minimum distribution for the year.

Individual Retirement Arrangements (IRA), Coverdell Education Savings Accounts (ESA), Archer Medical Savings Accounts (MSA) and Health Savings Accounts (HSA) 21.6.5

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- a. A taxpayer must receive the initial distribution by April 1 of the year following the year in which the taxpayer reaches the applicable age for required minimum distribution.
 - b. Subsequent required distributions, including the one for the year following the year the taxpayer reaches the applicable age, must be made by December 31 of each year.
 - c. The taxpayer may be subject to a 25% excise tax on the difference between the required distribution and the actual distribution. Prior to 2023, the excise tax was 50%.
- (4) A taxpayer who is at least age 70½ can exclude a distribution from gross income by directly transferring IRA funds to an eligible charitable organization. This transfer is called a Qualified Charitable Distribution (QCD) and an exclusion for a QCD may not exceed \$100,000 per taxpayer in any tax year. Beginning in 2023, as part of their QCD, the taxpayer may elect to make a one-time gift up to \$50,000, to a charitable remainder annuity trust, a charitable remainder unitrust, or a charitable gift annuity.
- (5) An excise tax is assessed on excess accumulations and is assessed on the Individual Retirement Arrangement File (IRAF), MFT 29.
- (6) The excise tax is waived if the taxpayer shows that the excess accumulation was due to a reasonable cause and they took reasonable steps to remedy the situation. Also, if, during the statutory correction window, the excess accumulation is distributed and the taxpayer submits a return reflecting the distribution, the excise tax rate is reduced from 25% to 10%. Refer to *Pub 590-B*, Distributions from Individual Retirement Arrangements (IRAs), for more information. An IRAF (MFT 29) account must be established before a waiver can be granted. Refer to IRM 21.6.5.4.11.4, Processing Form 5329 With TC 971 AC 144, for procedures to establish the IRAF (MFT 29) account.
- (7) IRC 2203 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act waived all required minimum distributions from defined contribution plans and IRAs for 2020. For more information on the CARES Act, refer to IRM 21.6.5.5 (2), Disaster Relief for Individual Retirement Arrangements (IRAs).

21.6.5.4.6 (10-01-2015) **Roth Individual Retirement Arrangement (IRA)**

- (1) With a Roth IRA:
 - Contributions are nondeductible.
 - Distributions may be tax-free depending on when and for what purpose the taxpayer withdraws money from the account.
 - Account holder must designate account as a Roth IRA when it is established.
- (2) Trustees of any type of IRA report information regarding distributions and contributions on Form 1099-R, Distribution From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., and Form 5498, IRA Contribution Information.

21.6.5.4.6.1
(10-01-2024)

Contribution Limits

- (1) A taxpayer must coordinate contribution limits for traditional IRAs and Roth IRAs. The maximum total yearly contribution that an individual can make to all individual IRAs is the lesser of the individual's taxable compensation for the year (this does not include rollovers), or the following amounts:

Year	Contribution Limit	If Age 50 Or Older
2024	\$7,000	\$8,000
2023	\$6,500	\$7,500
2020 - 2022	\$6,000	\$7,000

A taxpayer's Roth IRA contributions may be limited by their modified adjusted gross income (MAGI). Refer to *Pub 590-A, Contributions to Individual Retirement Arrangements (IRAs)*, for more information. Refer to *Pub 54, Tax Guide for U.S. Citizens and Resident Aliens Abroad*, for information about foreign exclusions or deductions.

- (2) The law allows taxpayers to contribute to a Roth IRA after age 70 $\frac{1}{2}$.
- (3) An excess contribution is an amount contributed to the taxpayer's Individual Retirement Arrangement (IRA) in excess of the amount of compensation for the tax year, or the IRA contribution limit that applies to the taxpayer for that year. Refer to IRM 21.6.5.4.3, Excess Contributions Tax, IRM 21.6.5.4.6.1, Contribution Limits, and IRM 21.6.5.3.1, Traditional Individual Retirement Arrangement (IRA), for information about contribution limits. Excess contributions are subject to 6% tax under IRC 4973.

21.6.5.4.6.2
(06-17-2024)

Phase Out (Income Limit)

- (1) The maximum yearly contribution that a taxpayer can make to a Roth IRA is phased out based on modified adjusted gross income (MAGI) and filing status as follows:

Year	Married Filing Joint or Qualifying Widow(er)	Married Filing Separately	Single, Head of Household, or All Others
2024	More than \$230,000 but less than \$240,000	\$10,000 or more	More than \$146,000 but less than \$161,000
2023	More than \$218,000 but less than \$228,000	\$10,000 or more	More than \$138,000 but less than \$153,000
2022	More than \$204,000 but less than \$214,000	\$10,000 or more	More than \$129,000 but less than \$144,000
2021	More than \$198,000 but less than \$208,000	\$10,000 or more	More than \$125,000 but less than \$140,000
2020	More than \$196,000 but less than \$206,000	\$10,000 or more	More than \$124,000 but less than \$139,000

Note: Once the maximum phase out amounts shown in the table are reached, the taxpayer will not be allowed to make a contribution to a Roth IRA.

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Refer to *Pub 590-A*, Contributions to Individual Retirement Arrangements (IRAs), for more information.

21.6.5.4.6.3 (10-01-2019) **Qualified Distributions**

- (1) Qualified distributions from a Roth IRA are not includible in gross income and are not subject to 10% tax on early withdrawals.
- (2) A qualified distribution is any payment or distribution from a Roth IRA that is made at least five years from the beginning of the year in which the taxpayer first set up and contributed to a Roth IRA, and the distribution is:
 - Made on or after the taxpayer reaches age 59½
 - Made upon death or disability, or
 - Made for a first-time home purchase (up to a \$10,000 lifetime limit).

Note: Refer to IRM 21.6.5.4.6.4, Five-Year Holding Period, for more information.

- (3) Refer to *Pub 590-B*, Distributions from Individual Retirement Arrangements (IRAs), for more information on qualified distributions.

21.6.5.4.6.4 (10-01-2015) **Five-Year Holding Period**

- (1) The five-year holding period is satisfied if Roth distributions (including distributions allocable to conversion contributions) are not made before the end of the five-tax year period beginning with the first tax year that the taxpayer contributed to a Roth IRA.
- (2) As with other IRAs, a taxpayer can make a regular contribution for a year if it's made by the due date for filing a tax return for the year, without regard to extensions. In this case, the five-tax-year holding period begins with the tax year for which a contribution is first made to a Roth IRA. A subsequent contribution does not start a new five-year period.

21.6.5.4.6.5 (10-01-2015) **Nonqualified Distributions**

- (1) Nonqualified distributions may be includible in gross income. Contributions are withdrawn tax-free. Earnings are included in gross income and may be subject to 10% tax on early withdrawals. Refer to *Pub 590-B*, Distributions from Individual Retirement Arrangements (IRAs), for more information on nonqualified distributions from a Roth IRA.
- (2) Distribution of a Roth conversion amount within five years of the conversion may cause the 10% additional tax on early distributions to be imposed, even if the amount distributed is not includible in gross income. Refer to *Pub 590-A*, Contributions to Individual Retirement Arrangements (IRAs), and *Pub 590-B* for more information.
- (3) When evaluating nonqualified distributions from a Roth IRA:
 - a. Treat distributions as made from regular contributions first and then conversion contributions on a first in first out (FIFO) basis.
 - b. Treat all of an individual's Roth IRAs as a single Roth IRA.
 - c. Do not treat any of a distribution as earnings until the total of all distributions from all the taxpayer's Roth IRAs exceed the amount of contributions to all the taxpayer's Roth IRAs.

21.6.5.4.6.6
(10-01-2015)

Minimum Distribution

- (1) The minimum distribution rules applying to other IRAs generally do not apply to Roth IRAs while the owner is alive.
- (2) However, after the death of a Roth IRA owner, certain minimum distribution rules that apply to traditional IRAs also apply to Roth IRAs. Refer to *Pub 590-B*, Distributions from Individual Retirement Arrangements (IRAs), for more information.

21.6.5.4.6.7
(10-01-2019)

Rollovers and Conversions into Roth IRAs

- (1) When transferring assets from a qualified plan, traditional IRA or Roth IRA:
 - a. A taxpayer may rollover, tax-free, distributions from a Roth IRA and eligible rollover distributions from a designated Roth account in a qualified plan to Roth IRA.
 - b. A taxpayer can convert amounts in a traditional IRA into a Roth IRA.
 - c. A taxpayer must include amounts converted from a traditional IRA or rolled over from a qualified plan (other than from a designated Roth account in the plan) to a Roth IRA in gross income as if they were distributed from the traditional IRA or qualified plan, except the 10% tax does not apply. Refer to *Pub 590-A*, Contributions to Individual Retirement Arrangements (IRAs), for more information.

Note: Taxpayers report income resulting from the conversion of a traditional IRA to a Roth IRA on the income tax return for the year the funds exited the traditional IRA.

Example: If the taxpayer received distributed funds in 2018 and then rolled over the funds to a Roth IRA in 2019 (within 60 days), they report the conversion income in 2018.

- (2) For tax years beginning before January 1, 2018, taxpayers can reverse ("re-characterize") a conversion of a traditional IRA to a Roth IRA. The taxpayer may recharacterize the conversion contribution by the due date (including extensions) of the tax return for the tax year during which they made the contribution. Refer to *Pub 590-A* for more information.

Note: These transfers may be between IRA trustees and IRA custodians or IRAs with same trustee or custodian; taxpayers may recharacterize both traditional IRA and Roth IRA contributions.

- (3) Effective for taxable years beginning after December 31, 2017, a conversion of a traditional IRA to a Roth IRA, and a rollover from any other eligible retirement plan to a Roth IRA, cannot be recharacterized.

21.6.5.4.7
(10-01-2019)

Coverdell Education Savings Accounts (ESAs)

- (1) Effective for taxable years beginning after December 31, 1997, eligible individuals (subject to modified adjusted gross income limitations) may establish and contribute cash only to a Coverdell Education Savings Account (ESA). Contributions to an ESA are not deductible but amounts deposited grow tax free until distributed. The total of all contributions to all ESAs for any one beneficiary cannot be more than \$2,000 per year. Pub. L. No. 107-16 revised Coverdell rules to cover elementary and secondary education expenses if special requirements are met for each taxable year. Taxpayers can make contributions without penalty to both a Coverdell and Qualified Tuition Program in the same year for the same beneficiary.

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- (2) Any distribution that exceeds qualified education expenses is taxed under IRC 72 annuity rules.
- (3) The American Opportunity, or Lifetime Learning credit can be claimed in the same year the beneficiary takes a tax-free distribution from Coverdell ESA, if the same expenses are not used for both benefits. This means the beneficiary must reduce qualified higher education expenses by tax-free educational assistance, and then further reduce them by any expenses taken into account in determining an American Opportunity, or Lifetime Learning credit.

Note: The taxpayer should receive a Form 1099-Q, Payments From Qualified Education Programs (Under IRC 529 and 530), for the breakdown. If taxpayer states no form received, refer to Pub 970, Tax Benefits for Education, Chapter 7, Coordination With American Opportunity and Lifetime Learning Credits, for calculations of the credit.

- (4) A portion of the earnings included in a distribution that exceeds the amount of qualified education expenses in excess of the distribution, is included in gross income and is subject to a 10% additional tax, unless an exception applies. This additional tax is reported on Part II, Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts.
- (5) The Military Family Tax Relief Act of 2003 exempts the additional 10% tax for withdrawals from Coverdell Education accounts for non-educational use, because of attendance at United States service academies (i.e., U.S. Military Academy, U.S. Naval Academy, U.S. Air Force Academy, U.S. Coast Guard Academy, or the U.S. Merchant Marine Academy).
 - Withdrawals not subject to the additional tax.
 - The requirement to include in income the earnings portion of distributions that are not used for qualified education expenses has not changed.
 - The provision applies to taxable years beginning after December 31, 2002.
- (6) The 10% additional tax will not apply if excess contributions and earnings attributable to the excess are distributed before the first day of the sixth month of the following tax year.
- (7) Excess contributions are subject to a 6% excise tax under IRC 4973.
- (8) Refer to Pub 970 for more information about Coverdell ESAs.

21.6.5.4.7.1 (10-01-2016) **Rollover of Coverdell Education Savings Accounts**

- (1) Before a beneficiary reaches age 30, the balance in a Coverdell Education Savings Account may be transferred or rolled over into another Coverdell Education Savings Account for the beneficiary or a member of the former beneficiary's family (including the beneficiary's spouse) who is under age 30. This age limitation does not apply if the new beneficiary is a special needs beneficiary. Refer to Pub 970, Tax Benefits for Education, for more information.
- (2) Transfers upon death or divorce to a spouse/member of the beneficiary's family under age 30 are generally not taxable and the spouse or family member treats the account as their own.

21.6.5.4.7.2
(10-01-2024)

**Qualified Tuition
Programs (QTP) (529
Plans)**

- (1) Certain colleges and universities may sponsor prepaid tuition programs under IRC 529. States may sponsor both prepaid and savings programs. Refer to Pub 970, Tax Benefits for Education, for more information.

Note: Federal gift tax regulations consider contributions to Qualified Tuition Programs (QTP) as gifts. Gift tax is owed (subject to the donor's lifetime applicable credit) on any contributions for the same child more than:

Tax Year	Per Donor	Per Donor Five-Year Period	Per Married Couple	Per Married Couple Five-Year Period
2024	\$18,000	\$90,000	\$36,000	\$180,000
2023	\$17,000	\$85,000	\$34,000	\$170,000
2022	\$16,000	\$80,000	\$32,000	\$160,000
2020-2021	\$15,000	\$75,000	\$30,000	\$150,000

The five-year period is known as the five-year carry-forward option. Once a donor or a married couple contributes the five-year limit amount and elects the five-year carry-forward option on Form 709, United States Gift (and Generation - Skipping Transfer) Tax Return, they are not able to make another contribution (gift) for that child (without reporting gift tax) for five years.

- (2) IRC 529 requires that a qualified tuition program sponsored by an eligible educational institution (defined in IRC 481 of the Higher Education Act of 1965: 20 USC 1088) must hold amounts in a qualified trust and have received a ruling or determination from the IRS that the qualified tuition program meets the applicable requirements.
- (3) A taxpayer may contribute to both a Coverdell Education Savings Account and to a IRC 529 Program in the same year. Refer to Pub 970 for more information about QTP.
- (4) Qualified higher educational expenses include expenses for tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious institution. In the case of a IRC 529 program, qualified higher education expenses also include expenses for fees, books, supplies, and equipment required for participation in an apprenticeship program registered and certified with the Secretary of Labor; and, up to \$10,000 paid as principal or interest on qualified student loans. Refer to IRC 530(b)(2)(A)(i) and IRC 529(e)(3) that further define qualified higher educational expenses which can be paid with funds from a Coverdell Education Savings Account or a IRC 529 program.
- (5) A portion of the earnings included in a distribution that exceeds the amount of qualified education expenses in excess of the distribution, is included in gross income and is subject to a 10% additional tax, unless an exception applies. This additional tax is reported on Part II, Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts.
- (6) Beginning in 2004, a distribution from a QTP established and maintained by an eligible educational institution (generally private colleges and universities) can

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be excluded from income if the amount distributed is not more than qualified educational expenses. For more information on tax-free QTP distributions, refer to Chapter 8 in Pub 970.

- (7) The Military Family Tax Relief Act of 2003 exempts the additional 10% tax for withdrawals from IRC 529 QTP accounts for non-educational use, because of attendance at United States service academies (i.e., U.S. Military Academy, U.S. Naval Academy, U.S. Air Force Academy, U.S. Coast Guard Academy, or the U.S. Merchant Marine Academy).
- (8) Taxpayers may roll over distributions received after December 22, 2017 and rolled-over before January 1, 2026, to an ABLE account, without penalty or income tax, within 60 days of distribution. The designated beneficiary of the ABLE account must be the same as the designated beneficiary of the QTP, or a family member of the designated beneficiary of the QTP. The amount of any rollover is limited to the amount that, when added to all other contributions to the ABLE account, does not exceed the IRC 529A(b)(2)(B)(i) limit for the year, i.e., the annual gift tax exclusion amount under IRC 2503(b). If the amount of the rollover causes contributions to exceed the limit, the distributee must include the excess rollover amount in their gross income.
- (9) Division T of the Consolidated Appropriations Act, 2023, , known as the SECURE 2.0 Act of 2022, amended IRC 529 as of December 31, 2023, to provide for a special rollover that is treated as a tax-free distribution (in the form of a trustee-to-trustee transfer) for certain amounts from a designated beneficiary's QTP to their Roth IRA. The QTP must have been maintained for at least 15 years as of the date of such distribution and the distribution does not exceed the aggregate amount contributed to the QTP (and attributable earnings) before the 5-year period ending on the date of the distribution. The amount of any special rollover is limited to the IRC 408A(c)(2) Roth IRA contribution limit and an aggregate limit of \$35,000.

21.6.5.4.8 (10-01-2024) **Archer Medical Savings Accounts (MSA) and Long-Term Care Insurance Contracts**

- (1) The Health Insurance Portability and Accountability Act of 1996 allowed eligible individuals to establish Archer Medical Savings Accounts (MSA). The Balanced Budget Act of 1997 allowed the establishment of a Medicare Advantage MSA. The Community Renewal Tax Relief Act of 2000 extended the MSA cutoff to 2002. The Tax Relief and Health Care Act of 2006 extended the MSA cut-off to 2007. Refer to IRM 21.6.5.4.8.1, Medicare Advantage Medical Savings Accounts (MSA), for more details.
- (2) The last date to be newly treated as an eligible individual for Archer MSA purposes was December 31, 2007. After that date, no one can establish a new Archer MSA; however, Archer MSA account holders may continue to use and contribute to accounts established before that date.
- (3) An Archer MSA is:
 - Established, created, or organized in the United States
 - Exclusively for the purpose of paying the qualified medical expenses of the account holder, spouse or dependent in conjunction with a high deductible health plan
 - Subject to rules similar to those applicable to IRAs

(4) Archer MSAs are available to:

- Employee (or employee's spouse) covered under an employer sponsored high deductible health plan of a small employer.
- Self-employed individual (or spouse of self-employed individual) with coverage under a high deductible health plan.

(5) A high deductible health plan has the following limits for annual deductible with applicable cost-of-living adjustments:

Deductible and Out-of-Pocket Expenses for Tax Year 2024	Self-only Coverage	Family Coverage
Minimum Annual Deductible	\$1,600	\$3,200
Maximum Annual Deductible	\$4,150	\$8,300
Maximum Annual Out-of-Pocket Expenses	\$8,050	\$16,100

Deductible and Out-of-Pocket Expenses for Tax Year 2023	Self-only Coverage	Family Coverage
Minimum Annual Deductible	\$2,650	\$5,300
Maximum Annual Deductible	\$3,950	\$7,900
Maximum Annual Out-of-Pocket Expenses	\$5,300	\$9,650

Deductible and Out-of-Pocket Expenses for Tax Year 2022	Self-only Coverage	Family Coverage
Minimum Annual Deductible	\$2,450	\$4,950
Maximum Annual Deductible	\$3,700	\$7,400
Maximum Annual Out-of-Pocket Expenses	\$4,950	\$9,050

Deductible and Out-of-Pocket Expenses for Tax Year 2021	Self-only Coverage	Family Coverage
Minimum Annual Deductible	\$2,400	\$4,800
Maximum Annual Deductible	\$3,600	\$7,150
Maximum Annual Out-of-Pocket Expenses	\$4,800	\$8,750

Deductible and Out-of-Pocket Expenses for Tax Year 2019	Self-only Coverage	Family Coverage
Minimum Annual Deductible	\$2,350	\$4,750
Maximum Annual Deductible	\$3,550	\$7,150
Maximum Annual Out-of-Pocket Expenses	\$4,750	\$8,650

- (6) Contributions to an Archer MSA are deductible if made by the account holder and excludible if made by their employer up to a limit. Refer to Pub 969, Health Savings Accounts and Other Tax-Favored Health Plans, for more information.
- (7) The taxpayer may have to pay additional tax if the contributions are more than the allowable deduction (does not apply to Medicare Advantage MSA). The tax is:
 - Reported on Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts, Part VI, Additional Tax on Excess Contributions to Archer MSAs.
 - Assessed on IRAF, MFT 29. Refer to IRM 21.6.5.4.11, Individual Retirement Account File (IRAF) Overview, for more information on IRAF assessments.
 - The smaller of 6% of the excess contributions or the value of the MSA on the last day of the tax year.
- (8) The taxpayer may withdraw some or all of the excess contributions, by the due date of the return (including extensions). The withdrawn contributions will not be taxed as excess contributions if:
 - No deduction is claimed for the contribution amount withdrawn.
 - Any income earned on the withdrawn contributions is also withdrawn.
 - The withdrawn income, earned on withdrawn contributions, is included in the account holder's gross income under other income on the tax return for the year the withdrawal of the contribution and earnings occurred.
- (9) Earnings on amounts in an Archer MSA are not taxable.
- (10) Generally, taxpayers can exclude distributions from an Archer MSA for qualified medical expenses (unreimbursed medical expenses that could otherwise be deductible on Schedule A, Itemized Deductions) from the account holder's gross income. Distributions are reported on Form 1099-SA, Distributions From an HSA, Archer MSA, or Medicare Advantage MSA.
- (11) The taxpayer is liable for tax on any taxable Archer MSA distributions not for qualified medical expenses. The tax is:
 - Reported on Form 1040, U.S. Individual Tax Return.
 - Assessed on the IMF, MFT 30.
- (12) The taxpayer is liable for an additional 20% tax on the taxable Archer MSA distributions, if an exception does not apply. The tax is:
 - Reported on Form 8853, Archer MSAs and Long-Term Care Insurance Contracts, Section A, Part II, Archer MSA Distributions.
 - Assessed on the IMF, MFT 30.
- (13) For more information on Archer MSAs, refer to Pub 969.

21.6.5.4.8.1
(10-01-2014)

**Medicare Advantage
Medical Savings
Account (MSA)**

- (1) The Balanced Budget Act of 1997 allows eligible individuals to establish a Medicare Advantage Medical Savings Account (MSA), IRC 138. The federal Medicare program administers MSAs. Refer to Pub 969, Health Savings Accounts and Other Tax-Favored Health Plans, for more information on Medicare Advantage MSAs.
- (2) Medicare Advantage MSA distributions are reported on Form 8853, Archer MSAs and Long-Term Care Insurance Contracts, Section B, Medicare Advantage MSA Distributions.
- (3) To qualify for a Medicare Advantage MSA, individuals must:
 - Enroll in Medicare, and
 - Have a high deductible health plan that meets Medicare guidelines.
- (4) Only Medicare makes contributions to a Medicare Advantage MSA. These contributions and the earnings are not taxable while in the account.
- (5) If an account holder uses distributions for expenses other than qualified medical expenses, the distributions are taxable, and may be subject to an additional 50% tax. Taxpayers must file Form 8853 with their tax return if they have a Medicare Advantage MSA. Refer to Pub 969 for more information.

21.6.5.4.8.2
(10-01-2014)

**Form 8853, Archer MSAs
and Long-Term Care
Insurance Contracts**

- (1) A taxpayer must file Form 8853, Archer MSAs and Long-Term Care Insurance Contracts, if during the tax year, they or their spouse (if filing joint):
 - a. Made a contribution to an existing Archer MSA as an employee or employer.
 - b. Received distributions from an existing Archer MSA or Medicare Advantage MSA.
 - c. Acquired an interest in an Archer MSA or Medicare Advantage MSA due to the death of the account holder.
 - d. Received distributions from a long-term care insurance contract.
 - e. Received certain accelerated death benefits from a life insurance contract.
- (2) Taxpayers use Section B, Medicare Advantage MSA Distributions, to report Medicare Advantage MSA Distributions, figure taxable distributions and additional tax.
- (3) Taxpayers use Section C, Long-Term Care (LTC) Insurance Contracts, to report Long-Term Care Insurance contracts.

21.6.5.4.8.3
(10-01-2015)

**Form 8853, Archer MSAs
and Long-Term Care
Insurance Contracts,
Part I Archer MSA
Contributions and
Deductions**

- (1) Within limits, contributions to an Archer MSA are:
 - Deductible if made by eligible individuals
 - Excludable if made by the employer

Exception: The exclusion does not apply to contributions made through a cafeteria plan.
- (2) The taxpayer or spouse may not contribute to an Archer MSA if the employer made any contributions (Form W-2, Wage and Tax Statement, Box 12 with Code R).
- (3) The deduction is limited to:

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- 65% of the annual deductible (self-only coverage)
- 75% of the annual deductible (family coverage)

(4) Taxpayers can make contributions for a particular tax year until the due date (without regard to extensions) of the individual income tax return for that year.

(5) The Archer MSA deduction is the smallest of:

- The amount of contributions for the year.
- The amount of compensation from the employer sponsoring the high deductible health plan.
- The net earnings from self-employment (if applicable), or
- The MSA limitation.

21.6.5.4.8.4
(10-03-2022)

Form 8853, Archer MSAs and Long-Term Care Insurance Contracts, Part II - Archer MSA Distributions

(1) The taxpayer is taxed on all distributions received in the tax year from all Archer MSAs to the extent the distributions were not used for qualified medical expenses of the account holder, his spouse, or dependents.

(2) Distributions not for medical expenses are also subject to an additional 20% tax unless made:

- After age 65 (account holder)
- After death (account holder)
- After disability (account holder)

(3) The taxpayer may rollover a distribution (withdrawal) of assets from one Archer MSA into another Archer MSA or health savings account (HSA). Generally, a taxpayer must rollover the distribution within 60 days following the distribution for the distribution to qualify as tax-free.

Note: A trustee-to-trustee transfer of funds from an Archer MSA directly to another Archer MSA or HSA is not considered a rollover for purposes of the one rollover per year rule.

(4) Form 8853, Section A, Part II, is used for computing any taxable distributions and the additional tax.

21.6.5.4.8.5
(10-01-2015)

Form 8853, Archer MSAs and Long-Term Care Insurance Contracts, Section B, Medicare Advantage MSA Distributions

(1) Taxpayers report Medicare Advantage Medical Savings Account (MSA) distributions on Form 8853, Section B.

(2) The taxpayer does not make contributions to a Medicare Advantage MSA account. Part B of title XVIII of the Social Security Act governs contributions (Medicare makes contributions to the account).

(3) The taxpayer is taxed on distributions received in the tax year to the extent the distributions were not used for unreimbursed qualified medical expenses.

(4) Distributions not for unreimbursed qualified medical expenses are also subject to an additional 50% tax to the extent they reduce the prior year account balance below an established floor unless made after the account holder:

- becomes disabled, or
- is deceased

Row Number	If	And	Then
1	The account holder dies	The designated beneficiary is the account holder's surviving spouse	Treat as a regular MSA of the spouse.
2	The account holder dies	There are any distributions after the date of death	Report in Section B.
3	There are any qualified medical expenses incurred by the account holder before date of death	Paid by the surviving spouse within one year after the date of death	Include on Line 7 of Section A, Part II.
4	The account holder dies	The designated beneficiary is not the account holder's surviving spouse	Include the fair market value of the account in the beneficiary's gross income. The account is no longer an MSA as of the date of death.
5	There are any qualified medical expenses incurred by the account holder before date of death	Paid by the beneficiary within one year after the date of death	Report in Section B. The distribution is not taxable to the extent of the qualified medical expenses.

- (5) The law permits Trustee-to-Trustee transfers of Medicare Advantage MSA accounts.
- (6) Taxpayers must file a separate Form 8853, with Section B completed, for each spouse if both spouses received distributions from a Medicare Advantage MSA.

21.6.5.4.8.6
(10-02-2023)
Form 8853, Archer MSAs and Long-Term Care Insurance Contracts, Section C, Long-Term Care (LTC) Insurance Contracts

- (1) The taxpayer must complete Form 8853, Section C, if the taxpayer (policyholder) or spouse (if filing jointly) was a policyholder who received payments made on a per diem or other periodic basis under a qualified LTC insurance contract or received certain accelerated death benefits on a per diem or other periodic basis.
- (2) The taxpayer must file a separate Form 8853, Section C, for each insured person for whom the taxpayer received payments.
- (3) Taxpayers report any taxable benefits on Form 8853, Section C, Line 26 and on Form 1040, U.S. Individual Tax Return, Form 1040-SR, U.S. Tax Return for Seniors, or Form 1040-NR, U.S. Nonresident Alien Income Tax Return. Beginning tax year 2020 and subsequent years, taxpayers report taxable benefits on Line 8 of Schedule 1, Additional Income and Adjustments to Income, and attach to Form 1040, Form 1040-SR or Form 1040-NR.
- (4) The individual owning the proceeds of the qualified LTC contract must report the income for tax purposes, regardless of whether the payment is assigned to a third party.

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- (5) Taxpayers exclude from income amounts paid as reimbursements for qualified LTC services under a qualified LTC contract.
 - a. The excludable amount is limited if payments are made on a per diem basis or other periodic basis.
 - b. Taxpayers must allocate the per diem exclusion limit among all policyholders who own qualified LTC insured contracts for the same insured.
- (6) Taxpayers can fully exclude from income amounts paid as accelerated death benefits if the insured has been certified by a physician as terminally ill. These amounts are excludable, to the same extent they would be if paid under a qualified LTC insurance contract, if the insured has been certified by a licensed health care practitioner as chronically ill.

21.6.5.4.9 (10-01-2020) Health Savings Accounts (HSAs)

- (1) IRC 1201 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 permits eligible individuals to establish Health Savings Accounts (HSAs) for taxable years beginning after December 31, 2003. Account holders may accumulate amounts in an HSA over the years or distribute on a tax-free basis to pay or reimburse qualified medical expenses.
- (2) An HSA is a tax-exempt trust or custodial account established exclusively for the purpose of paying qualified medical expenses of the beneficiary, whom for the months the contributions are made to an HSA, is covered under a high-deductible health plan.
- (3) An individual establishes an HSA for their benefit and owns it. It is portable, staying with the individual when they change employers or leave the work force.

21.6.5.4.9.1 (06-17-2024) Who Is Eligible for Health Savings Accounts (HSAs)?

- (1) An eligible individual can establish a Health Savings Account (HSA). An eligible individual (for any month) is:
 - Covered under a high deductible health plan (HDHP) on the first day of such month.
 - Not covered by another health plan that is not an HDHP (with certain exceptions for plans providing limited types of coverage).
 - Not enrolled in Medicare.
 - Not claimed as a dependent on another person's tax return.
- (2) Generally, an HDHP is a health plan that meets certain requirements for deductibles and out-of-pocket expenses.
- (3) The table below lists the annual deductibles and maximum out-of-pocket expenses, including deductibles, co-payments, and other amounts and not including premiums.

Tax Year	Annual Deductible for Self-only Coverage	Out-of-pocket Expenses for Self-only Coverage	Annual Deductible for Family Coverage	Out-of-pocket Expenses for Family Coverage
2024	\$1,600	\$8,050	\$3,200	\$16,100

Tax Year	Annual Deductible for Self-only Coverage	Out-of-pocket Expenses for Self-only Coverage	Annual Deductible for Family Coverage	Out-of-pocket Expenses for Family Coverage
2023	\$1,500	\$7,500	\$3,000	\$15,000
2022	\$1,400	\$7,050	\$2,800	\$14,100
2021	\$1,400	\$7,000	\$2,800	\$14,000
2020	\$1,400	\$6,900	\$2,800	\$13,800

21.6.5.4.9.2
(10-01-2024)

Health Savings Account (HSA) Contributions

- (1) For a Health Savings Account (HSA) established by an employee, the employee, the employee's employer or both may contribute to the HSA of the employee in a given year.
- (2) For an HSA established by a self-employed (or unemployed) individual, the individual may contribute to the HSA.
- (3) Family members may also make contributions to an HSA on behalf of another family member or any other person if that other family member is an eligible individual.
- (4) The maximum annual contributions for individuals (and their spouses covered under the high deductible health plan (HDHP)) age 55 and older at the end of the tax year, are as follows:

Tax Year	Annual Contribution for Self-only Coverage	Catch-up Contribution for Self-only Coverage	Annual Contribution for Family Coverage	Catch-up Contribution for Family Coverage
2024	\$4,150	\$1,000	\$8,300	\$1,000
2023	\$3,850	\$1,000	\$7,750	\$1,000
2022	\$3,650	\$1,000	\$7,300	\$1,000
2021	\$3,600	\$1,000	\$7,200	\$1,000
2020	\$3,550	\$1,000	\$7,100	\$1,000

- (5) After an individual is enrolled in Medicare, contributions (including catch-up contributions) cannot be made to an individual's HSA.
- (6) HSA contributions made by an eligible individual, a family member, or any other person on behalf of an individual, are:
 - Deductible by the eligible individual in determining adjusted gross income.
 - Deductible if made in cash and not in the form of stock or other property.
 - Not deductible as a medical expense itemized deduction.
 - Not deductible if the individual is being claimed as a dependent on another person's tax return.

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- Not deductible on Form 1040, U.S. Individual Income Tax Return or as medical expenses on Schedule A, if the employer made the HSA contributions.
- Computed using Form 8889, Health Savings Accounts (HSAs), Part I, HSA Contributions and Deduction and reported on Form 1040. For tax year and 2020, taxpayers report the deduction on Line 12 of *Schedule 1* and attach to Form 1040 or Form 1040-SR, U.S. Income Tax Return for Seniors. Beginning in tax year 2021, taxpayers report the deduction on Line 13 of *Schedule 1* and attach to Form 1040, Form 1040-SR or Form 1040-NR, U.S. Nonresident Alien Income Tax Return.

- (7) For calendar year taxpayers, the deadline for contributions to an HSA is generally April 15 following the year for which the contributions are made.

Note: An individual may make the maximum annual contribution if they are an eligible individual as of December 1, and remain an eligible individual during the testing period. If not, the contribution amount is determined on a monthly basis. The testing period is the time during which an individual must maintain HDHP coverage in Year 2 in order to avail themselves of the ability to contribute the full amount to their HSA in Year 1.

21.6.5.4.9.2.1 (10-01-2004) **Excess Health Savings Accounts (HSA) Contributions**

- (1) An employee includes in their gross income contributions made by their employer to their Health Savings Account (HSA) to the extent that they exceed the allowable contribution limits or if they are made on behalf of an employee who is not an eligible individual.
- (2) The law imposes an excise tax of 6% for excess individual and employer contributions. Taxpayers report this excise tax on Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts, Part VII, Additional Tax on Excess Contributions to Health Savings Accounts (HSAs), and posted to the IRAF, MFT 29 account. Refer to IRM 21.6.5.4.11.7, Individual Retirement Account File (IRAF) Tax Adjustments, for information on adjusting IRAF, MFT 29 accounts.

21.6.5.4.9.2.2 (10-01-2017) **Rollover Contributions to Health Savings Accounts (HSAs)**

- (1) The law permits rollover contributions from Archer MSAs and other Health Savings Accounts (HSAs) into an HSA.
- (2) Rollovers are not subject to the annual contribution limits.
- (3) Rollovers from an IRA, a health reimbursement arrangement, or a health flexible spending arrangement to an HSA are permitted under certain circumstances. These rollovers are subject to annual contribution limits.

21.6.5.4.9.3 (10-02-2023) **Health Savings Account (HSA) Distributions**

- (1) Distributions from a Health Savings Account (HSA) used exclusively to pay for qualified medical expenses of the account beneficiary, or their spouse or dependents, are excludable from gross income. A taxpayer may use the amounts in an HSA for qualified medical expenses and exclude them from gross income even if they are not currently eligible for contributions to the HSA.

- (2) Qualified medical expenses are expenses incurred after the HSA has been established and paid by the account beneficiary, their spouse, or dependents for medical care as defined in IRC 213(d) but only to the extent the expenses are not covered by insurance or otherwise.
- (3) For purposes of determining the itemized deduction for medical expenses, medical expenses paid or reimbursed by distributions from an HSA are not treated as expenses paid for medical care under IRC 213.
- (4) Health insurance premiums are not considered qualified medical expenses except for the following:
 - Qualified long-term care insurance.
 - Continuation coverage under federal law (e.g., Consolidated Omnibus Reconciliation Act (COBRA) or Uniformed Services Employment and Reemployment Rights Act (USERRA) coverage).
 - Health care coverage while an individual is receiving unemployment compensation.
 - Premiums for Medicare Part A or B, Medicare Health Maintenance Organization (HMO) and Medicare Advantage Plans (Part C of Medicare) (for individuals over age 65).
 - Preferred Provider Organization, Private Fee for Service Plans, and Special Needs Plans (for individuals over age 65).
 - Premiums for employer sponsored retiree health insurance (for individuals over age 65). For more information refer to, Pub 969, Health Savings Accounts and Other Tax-Favored Health Plans.

Note: Medigap Premiums are not qualified medical expenses.

- (5) Any amount of the distribution not used exclusively for qualified medical expenses of the account beneficiary, spouse or dependents is includible in gross income of the account beneficiary and is subject to an additional 20% tax on the amount includible in income.

Exception: Distributions made after the account beneficiary's death, disability or reaching age 65 are not subject to the additional tax.

- (6) Taxpayers use Form 8889, Health Savings Accounts (HSAs), Part II, HSA Distributions, to compute the taxable amount of the HSA distribution. Taxpayers include the taxable amounts in the total amount reported on Line 8 of *Schedule 1* and attach to Form 1040. Taxpayers are instructed to enter "HSA" and the amount on the dotted line next to Line 8. For tax year 2020, taxpayers include the additional tax, if applicable, on Line 8 of Schedule 2, and attach to Form 1040, Form 1040-SR or Form 1040-NR, U.S. Nonresident Alien Income Tax Return. Taxpayers are instructed to enter "HSA" and the amount next to Line 8. Beginning in tax year 2021, taxpayers include the additional tax, if applicable, on Line 17c of Schedule 2, and attach to Form 1040, Form 1040-S, or Form 1040-NR.
- (7) If the account beneficiary is no longer an eligible individual (e.g., entitled to Medicare benefits, or no longer exclusively has an HDHP), they can continue to exclude distributions used exclusively to pay for qualified medical expenses from their gross income.

- (8) Upon death, any balance remaining in the account beneficiary's HSA becomes the property of the individual named in the HSA as the beneficiary of the account.
- If the account beneficiary is the surviving spouse, the surviving spouse pays income tax only on HSA distributions used to pay expenses other than qualified medical expenses.
 - If the account beneficiary is a person other than the surviving spouse, the HSA ceases to be an HSA as of the date of death. The account beneficiary must include in their gross income the fair market value of the HSA assets as of the date of death. The includable amount in the account beneficiary's gross income (except the decedent's estate) is reduced by any payments from the HSA made for the decedent's qualified medical expenses, if paid within one year after death.

21.6.5.4.10
(10-02-2023)
**Achieving a Better Life
Experience (ABLE)**

- (1) The Achieving a Better Life Experience (ABLE) account provision signed into law in December 2014, recognizes the special financial burdens faced by families raising children with disabilities. ABLE accounts enable people with disabilities and their families to save and pay for disability-related expenses. ABLE account programs use two forms to report relevant account information annually to designated beneficiaries, Form 1099-QA, Distributions from ABLE Accounts, and Form 5498-QA, ABLE Account Contribution Information.

21.6.5.4.10.1
(10-01-2016)
**Who Is Eligible for
Achieving a Better Life
Experience (ABLE)?**

- (1) The law authorizes any state to offer its residents the option of setting up an ABLE account.
- (2) The account owner and designated beneficiary of the account is the disabled individual. In general, a designated beneficiary can have only one ABLE account at a time, and must be disabled before their 26th birthday.
- (3) Eligible individuals may establish an ABLE account in any state. This allows individuals to set up ABLE accounts and choose the state program that best fits their needs (i.e., investment options, fees, and account limits).

21.6.5.4.10.2
(10-01-2024)
**Achieving a Better Life
Experience (ABLE)
Contributions**

- (1) Total annual contributions to an ABLE account are limited to the annual gift tax exclusion amount. The annual gift tax exclusion for 2019-2021 was \$15,000, for 2022 it was \$16,000, for 2023 it is \$17,000, and for 2024 it is \$18,000. Distributions of earnings are tax-free if used to pay qualified disability expenses.

Note: For taxable years beginning after December 22, 2017 and contributions made before January 1, 2026, designated beneficiaries may be able to make additional contributions beyond the contribution limitation. Refer to Pub 907, Tax Highlights for Persons with Disabilities. Additionally, the designated beneficiary can claim contributions during this period for the saver's credit on Form 8880, Credit for Qualified Retirement Savings Contributions.

- (2) Qualified disability expenses are related to the designated beneficiary's blindness or disability and help that person maintain or improve health, independence and quality of life. For example, they can include housing,

education, transportation, health, prevention and wellness, employment training and support, assistive technology and personal support services and other disability-related expenses.

21.6.5.4.10.3
(10-02-2023)
**ABLE Account
Distribution and
Contribution Information
Forms**

- (1) The ABLE Act allows a state to establish and maintain a new type of tax-advantaged savings program (under IRC 529A of the Internal Revenue Code). States use the following two information returns:
 - Form 1099-QA, Distributions From ABLE Accounts
 - Form 5498-QA, ABLE Account Contribution Information
- (2) These forms are **not** available on CC IRPTR. If the taxpayer has questions concerning the Form 1099-QA or the Form 5498-QA, direct them back to the state where they established their ABLE account. The state where the ABLE account was established issues the forms to the taxpayers. Refer to the Pub 907, Tax Highlights for Persons With Disabilities, for additional information.

21.6.5.4.11
(10-02-2023)
**Individual Retirement
Account File (IRAF)
Overview**

- (1) Access the Individual Retirement Account File (IRAF) with MFT 29. The system establishes the MFT 29 module by extracting return information from IMF when a taxable Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts, is processed with an original Form 1040, U.S. Individual Income Tax Return, Form 1040-SR, U.S. Tax Return for Seniors or Form 1040-NR, U.S. Nonresident Alien Income Tax Return.

Exception: Form 5329, Part I, Additional Tax on Early Distributions, or Part II, Additional Tax on Certain Distributions From Education and ABLE Accounts, post to IMF, MFT 30. Refer to IRM 21.6.5.4.11.6, IMF Tax Adjustments, for more information.

- (2) The spouse indicator (1 for the primary taxpayer or 2 for the secondary taxpayer) shows which spouse on a joint return filed the Form 5329. The spousal indicator is displayed on command code (CC) IMFOLR and CC RTVUE.
- (3) The type indicator (displayed on CC IMFOLR) is a code edited on Form 5329 or generated by input of TC 971 action code (AC) 144. Refer to IRM 21.6.5.4.11.4, Processing Form 5329 With TC 971 AC 144. It tells the computer whether to post Form 1040 and indicates a dummy or original return. Valid indicators are:

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IRAF Code	Explanation of Code
0	Indicates receipt of an original Form 1040 with IRA data. This code is not used to input a Form 5329.
1	a. Indicates receipt of Form 5329 without Form 1040. Document Perfection uses this code when a dummy return is prepared, or b. Indicates creation of MFT 29 from input of TC 971 AC 144. Refer to IRM 21.6.5.4.11.4, Processing Form 5329 With TC 971 AC 144.
2	Indicates receipt of Form 5329 with a Form 1040-X, Amended U.S. Individual Income Tax Return, an amended Form 1040 or correspondence, and completion of IMF adjustments. This allows Form 5329 to post to IRAF from input of a dummy Form 1040.
3	Indicates completion of all necessary adjustments on both IMF and IRAF. If transaction code is 977, this type indicator does not issue CP 36, Duplicate Filing Notice, or set a -A freeze.

- (4) The system can generate a TC 846 on IRAF MFT 29 modules if there are not any freeze code conditions present that prevent refunds.
- (5) The input of a TC 971 AC 144 on an IMF MFT 30 module generates a corresponding IRAF MFT 29 module. This eliminates the requirement to forward a dummy Form 1040 to processing with Form 5329 to establish an IRAF MFT 29 account. Refer to IRM 21.6.5.4.11.4, Processing Form 5329 With TC 971 AC 144, to establish IRAF MFT 29 accounts for loose Form 5329 or Form 5329 received with amended returns.

21.6.5.4.11.1 (05-25-2006) Individual Retirement Account File (IRAF) Filing History Codes

- (1) The following Individual Retirement Account File (IRAF) Filing History Codes display on IMF entity:

History Code	Explanation of Code
6	IRAF Notice issued to secondary taxpayer.
7	IRAF Notice issued to primary and secondary taxpayer.

21.6.5.4.11.2 (10-01-2018) Individual Retirement Account File (IRAF) Abstract Numbers

- (1) Use abstract numbers with any Individual Retirement Account File (IRAF) MFT 29 tax adjustment. See IRM 21.6.5.4.11.7, Individual Retirement Account File (IRAF) Tax Adjustments, for information on input of adjustments with abstract numbers. Valid item Abstract Numbers are:

Abstract Number	Explanation of Number
160	Increase or decrease tax on excess contributions. Reported as Additional Tax on Excess Contributions to Traditional IRAs, on the Form 5329.
162	Increase or decrease in accumulations tax. Reported as Additional Tax on Excess Accumulation in Qualified Retirement Plans (Including IRAs), on the Form 5329.
233	Increase or decrease tax on Archer Medical Savings Account (MSA) excess contributions. Reported as Additional Tax on Excess Contributions to Archer MSAs, on the Form 5329.
235	Increase or decrease in tax on Coverdell ESA excess contributions. Reported as Additional Tax on Excess Contributions to Coverdell ESAs, on the Form 5329.
236	Increase or decrease in tax on Roth IRA excess contributions. Reported as Additional Tax on Excess Contributions to Roth IRAs, on the Form 5329.
237	Increase or decrease to additional 6% tax on excess contributions to HSAs. Reported as Additional Tax on Excess Contributions to Health Savings Accounts (HSAs), on the Form 5329.
238	Increase or decrease in tax on Achieving a Better Life Experience (ABLE) excess contributions. Reported as Additional Tax on Excess Contributions to an ABLE Account, on the Form 5329.

Note: Research CC IMFOLR for MFT 29 and the proper tax year to determine the correct abstract number to use on adjustments. See IRM 2.3.51-18, Command Code IMFOL Output Display - Return IRA MFT 29, for more information on researching CC IMFOLR.

- (2) The TC 29X amount must equal combined Abstract Numbers 160, 162, 233, 235, 236, 237, and 238 amounts.

21.6.5.4.11.3
(12-07-2015)

Individual Retirement Account File (IRAF) Blocking Series and Source Documents

- (1) Input adjustments to Individual Retirement Account File (IRAF) MFT 29 modules as Non-Source Document (NSD) adjustments. Since all information/forms are scanned into CII, there is no need for source document adjustments.
- (2) Use blocking series (BS) 00 on all IRAF adjustments except in the following specific cases:

BS	Used for
50	Adjustments created by Revenue Act of 1978 and Public Law 95-458.
70	Mathematical/clerical errors.
80	Offers in Compromise.
96	Penalty Appeals Indicator Set.
97	Penalty Appeals Indicator Released.

21.6.5.4.11.4
(05-21-2024)
**Processing Form 5329
With TC 971 AC 144**

- (3) **Do not** use any SC or RC when adjusting MFT 29 IRAF accounts. Source codes (SC) and reason codes (RC) cannot post to MFT 29 IRAF accounts. For information on hold codes, refer to IRM 21.5.2.4.15, Rules on Hold Codes (HC).

- (1) The input of a TC 971 AC 144 on a MFT 30 module generates a corresponding MFT 29 module for Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts. The TC 971 AC 144 is input using CC REQ77.

- The TC 971 AC 144 generates an IRAF MFT 29 module with a TC 150 for .00. A TC 971 AC 144 also generates on the MFT 29 module.
- The TC 971 date is also the TC 150 date on the MFT 29 module. Applicable penalty and interest generate based on the TC 150 date.
- IRAF MFT 29 modules generated by the input of TC 971 AC 144 to the corresponding IMF MFT 30 account are identified by the TC 150 DLN. The IRAF MFT 29 TC 150 DLN is the same as the TC 971 AC 144 DLN, except the document code is 11 and the Julian date is always 886.
- The type indicator and the IRAF Spousal Indicator (if applicable) generate and post to CC IMFOLR.
- Normal tax liability offsets occur.

- (2) The IRS permits Installment Agreements (IA) and Direct Debit Installment Agreements on MFT 29 modules.

- (3) Systemically generated refunds, TC 846, occur on MFT 29 modules using the same programming process as MFT 30 systemic refunds.

- (4) If a Form 1040-X, Amended U.S. Individual Income Tax Return, is received and the additional tax is for the Form 5329, but no Form 5329 is attached, correspond with the taxpayer either by phone or Letter 1803C, IRA/Retirement Plan Inquiry, requesting the Form 5329.

- If a response is received, follow the procedures in (6) below to establish the MFT 29 module and assess the tax.
- If no response is received, prepare a dummy Form 5329 and edit the amount from the Form 1040-X to the dummy Form 5329. Follow the procedures in (6) below to establish the MFT 29 module and assess the tax. Input the adjustment to reflect the primary taxpayer if unable to determine which spouse is reporting the additional tax.

- (5) The following conditions require establishing an MFT 29 module if one does not currently exist:

- A Form 5329, with entries in Parts III - IX, received with Form 1040-X or amending an originally filed Form 1040, U.S. Individual Income Tax Return.
- A loose Form 5329, with entries in Parts III - IX, received without a Form 1040 filing (taxpayer is not liable for filing Form 1040. This includes statute years.)

Note: Do not push code loose Forms 5329. TC 930 is not valid for IRAF MFT 29 modules. Establish the IRAF MFT 29 module following the procedures in (6) below.

- (6) Follow these procedures to establish an MFT 29 module with the input of a TC 971 AC 144 on an MFT 30 account:

- a. Determine if there is an entity on IMF. If none exists, establish an entity by inputting a TC 000 on CC ENMOD. Monitor for posting of the entity; once posted follow procedures below.

Note: If multiple Forms 5329 are received, establish the entity by inputting TC 000 on CC ENMOD, using the tax period for the earliest Form 5329 received.

- b. On the IMF MFT 30 account, input a TC 971 AC 144 using CC REQ77 for the tax period as shown on Form 5329. A TC 971 AC 144 cannot be input to MFT 29. It generates on the MFT 29 account when input to the corresponding MFT 30 tax year.
- c. When inputting TC 971 AC 144 to the IMF MFT 30 account, include the cross reference (XREF) Social Security number (SSN) (as shown on Form 5329). The XREF MFT 29 tax period will generate (the same tax period as the MFT 30). It is possible to input two TC 971 AC 144 transactions on the same MFT 30 module (one for the primary SSN and one for the secondary SSN).

Exception: If the Form 5329 is for the secondary SSN on a joint return, compare the Form 5329 name control with CC INOLES IMF name control. If the name control does not match, follow procedures in (d) below to avoid unpostable code 169-9.

- d. **If Form 5329 is for the secondary SSN**, compare the Form 5329 name control with CC INOLES IMF name control. **If the name control does not match CC INOLES, input a TC 971 AC 144 on MFT 30 for the secondary SSN**, for the same tax period as shown on Form 5329. Do not input TC 971 AC 144 to the MFT 30 for the primary SSN. Continue with procedures in (e) - (j) below.

Note: For these types of cases, it may be necessary to establish an entity on CC ENMOD with TC 000 for the name as shown on Form 5329 (if the IMF name control is a mismatch and an IMF entity with this name control is not present). This allows an MFT 29 module to generate with the name control as shown on Form 5329.

- e. **Input the received date (required) for TC 971 AC 144. Use the Form 5329 received date for input of the TC 971 transaction date. This posts on the MFT 29 module as the TC 150 .00 date and establishes the Form 5329 ASED.**

Note: If a Form 5329 is received without the original Form 1040, the ASED begins with the posting of the MFT 29 TC 150 date. The ASED is the due date of the return or the date of filing (received date), whichever is later. If Form 1040 and Form 5329 are received and processed at the same time, the MFT 29 and MFT 30 ASED are the same.

- f. Input the TC 290 amount on IRAF, MFT 29, for the taxpayer shown on the Form 5329. Include the corresponding IRAF abstract numbers, and

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use hold code 3, for the taxpayer on the Form 5329. Refer to IRM 21.6.5.4.11.2, Individual Retirement Account File (IRAF) Abstract Numbers, for a list of related codes.

- g. Input the appropriate blocking series; refer to IRM 21.6.5.4.11.3, Individual Retirement Account File (IRAF) Blocking Series and Source Documents.
- h. Input a posting delay code for 3 cycles. This allows the MFT 29 module to generate from the input of the TC 971 AC 144 on the MFT 30 module. The MFT 29 module posts with a TC 150 .00 and TC 971 AC 144.
- i. If a subsequent adjustment is needed to abate tax (usually from a waiver request for excess accumulations tax), input TC 291 amount on IRAF, and hold code 3, MFT 29 with the corresponding IRAF abstract numbers. Input posting delay code for 4 cycles. Refer to IRM 21.6.5.4.5, Excess Accumulations, for information about this type of excise tax.

Reminder: Create a dummy MFT 29 module using CC MFREQD prior to adjustment.

- j. **Do not** use any source codes (SC) or reason codes (RC) when adjusting MFT 29 IRAF accounts. Source codes (SC) and reason codes (RC) cannot post to MFT 29 IRAF accounts. For information on hold codes, refer to IRM 21.5.2.4.15, Rules on Hold Codes (HC).
 - k. Send Letter 1803C to the taxpayer and explain the actions taken.
- (7) Use extreme caution when inputting these transactions. The MFT 29 module (with a TC 150) may have been established based on previous input of a dummy Form 1040 with a Form 5329 sent through processing. **A subsequent TC 290 and IRAF abstract numbers (based on input of TC 971 AC 144) will also post.** This would create a duplicate assessment.

21.6.5.4.11.5 (05-25-2006) Individual Retirement Account File (IRAF) Entity

- (1) An Individual Retirement Account File (IRAF) adjustment or credit transfer will not post unless an entity is established on the IRAF for a particular module.
- (2) An IRAF entity is established when a Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts, posts as a TC 150 and is updated when a later return posts.
 - The name line from Form 5329 is transcribed.
 - All other entity data is extracted from the IMF.

21.6.5.4.11.6 (10-02-2023) IMF Tax Adjustments

- (1) The additional 10% tax is adjusted on the IMF account for:
 - Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts, Part I, Additional Tax on Early Distribution.
 - Form 5329, Part II, Additional Tax on Certain Distributions From Education Accounts and ABLE Accounts.
- (2) No adjustment is made to the IRAF (MFT 29) account.
- (3) Determine if the 10% tax is included in the posted IMF (MFT 30) tax.
- (4) If a loose Form 5329 with Part I or Part II completed is received, research the account (both accounts for MFJ taxpayers) to determine if the income and tax are reported on the return. If no return on file, send the taxpayer Letter 282C,

Return Not Received; Copy Requested/Received, and advise them that a Form 1040, U.S. Individual Income Tax Return, is required to be filed with the Form 5329. If the income and tax are reported on the return, then determine if an adjustment is needed. If there is no filing requirement to file an income tax return, prepare a dummy return and send it with the Form 5329 for processing. See IRM 3.11.3.35.2, Loose Form 5329, for further instructions.

- (5) If the income on the Form 5329, Parts I or II is included as income on the tax return, make the adjustment to include the 10% tax.
- (6) Consider changes to income tax and/or the 10% tax.
- (7) Determine if an IMF tax adjustment is needed.

If	Then
No adjustment is necessary	Input TC 290 .00 on the IMF (MFT 30) account.
An adjustment is necessary	Input TC 29X on the IMF account using reason code (RC) 048, the proper blocking series and source code (SC).

21.6.5.4.11.7
(11-15-2022)
**Individual Retirement
Account File (IRAF) Tax
Adjustments**

- (1) Adjust the additional tax (excise tax) on excess contributions to Traditional IRAs, Roth IRAs, Coverdell ESAs, Archer MSAs, HSAs, and ABLE Accounts from Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts, on the IRAF, MFT 29.

Note: The part-numbers on the Form 5329 may vary depending on the tax year.

Caution: Only use the MFT 29 TC 150 amount when waiving the tax on the taxpayer's account. **DO NOT** math verify the Form 5329 and assess the taxpayer additional tax.

- (2) Adjust the additional tax on excess accumulation in qualified retirement plans (including IRAs) from Form 5329, Part IX, on the IRAF, MFT 29.

Caution: Only use the MFT 29 TC 150 amount when waiving the tax on the taxpayer's account. **DO NOT** math verify the Form 5329 and assess the taxpayer additional tax.

- (3) When adjusting the tax:
 - Ensure an entity for the module is present or established prior to taking any adjustment action.
 - Consider the impact on both the IMF (MFT 30) and IRAF (MFT 29) modules.
 - Use TC 29X with proper item abstract number to adjust an established module on IRAF MFT 29. Refer to IRM 21.6.5.4.11.2, Individual Retirement Account File (IRAF) Abstract Numbers, for definitions of the abstract numbers.
 - The TC 29X amount must equal combined Abstract Numbers 160, 162, 233, 235, 236, 237, and 238 amounts.
- (4) For the blocking series, refer to IRM 21.6.5.4.11.3, Individual Retirement

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Account File (IRAF) Blocking Series and Source Documents.

- (5) **Do not** use any source codes (SC) or reason codes (RC) when adjusting MFT 29 IRAF accounts. Source codes (SC) and reason codes (RC) cannot post to MFT 29 IRAF accounts. For information on hold codes, refer to IRM 21.5.2.4.15, Rules on Hold Codes (HC).
- (6) Do not enter a correspondence date when adjusting MFT 29 accounts.
- (7) The refund generates from the MFT 29. **Do not** move the payments back to the MFT 30 to refund.
- (8) Transfer a remittance for IRAF, if necessary, using CC ADD/ADC 24. Refer to IRAF credit transfers in IRM 21.6.5.4.11.8, Individual Retirement Account File (IRAF) Credit Transfers.

21.6.5.4.11.8

(10-03-2022)

Individual Retirement Account File (IRAF) Credit Transfers

- (1) Transfer any additional credit using CC ADD/ADC24.

If	Then
Assessing tax on IRAF (MFT 29) and the credit is available on IMF (MFT 30)	<ol style="list-style-type: none"> 1. Use CC ADD/ADC24 to transfer the credit to the IRAF module. 2. Use TC 820 to debit IMF and TC 700 to credit IRAF.
The actual IRAF payment or portion of the IRAF payment posted to IMF	Use proper transaction codes to debit IMF and credit IRAF. Refer to IRM 21.5.8-1, Transaction Codes and Reversals, for more information.

- (2) Overpayments refund from IRAF (MFT 29) accounts. A TC 846 will systematically generate and post to IRAF (MFT 29) modules, providing freeze code conditions preventing a refund are not present. Offsets to any outstanding liabilities also apply to IRAF. Take the following action to transfer a payment from IRAF to IMF when applicable:

If	And	Then
A TC 896/796 offset created the credit	The amount is available for application to IMF (MFT 30)	<ol style="list-style-type: none"> Reverse the offset using CC ADD/ADC24. Use TC 792 to debit the IRAF (MFT 29) and TC 892 to credit IMF. Include spouse indicators <ul style="list-style-type: none"> “0” for non-joint filer “1” for primary taxpayer “2” for secondary taxpayer on the CC DRT24 format. Use the spousal indicator as posted on RTVUE (use definer RY to view one posted Form 5329 or RZ to view two Forms 5329 information) to avoid an unpostable condition.
A payment posted to the IRAF in error creating a credit	The amount is available for application to IMF	Use proper transaction codes to debit IRAF and credit IMF. Refer to IRM 21.5.8-1, Transaction Codes and Reversals, for more information.

- Send Letter 1803C, IRA/Retirement Plan Inquiry, to the taxpayer to explain the actions taken.
- If the credit was applied to the Unidentified or Excess Collection file, prepare documentation to move the payment to the IRAF account. Refer to IRM 21.5.7.3.5, Researching Unidentified Remittances and Excess Collection File, for more information.

21.6.5.4.11.9
(05-25-2006)

Internal Individual Retirement Account File (IRAF Notices)

- Internal IRAF Notices generate to notify the campus that additional action or review of the IRAF module (MFT 29) may be necessary.

21.6.5.4.11.9.1
(10-02-2023)

IRAFWAIVER Transcripts

- An internal IRAFWAIVER transcript generates on CII to notify the campus that a manual review of the excess accumulation tax reported on Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts, Part IX, Additional Tax on Excess Accumulation in Qualified Retirement Plans (Including IRAs), is needed. Cases are generated under MFT 29 with Category **IRRQ**, and Case Notes state **MF Transcript IRAFWAIVER case received**.

- Taxpayers may request a waiver of the 50% excise tax by attaching an explanation that the excess accumulation was due to a reasonable error and they took reasonable steps to remedy the situation.

Note: Refer to *Pub 590-A*, Contributions to Individual Retirement Arrangements (IRAs), and *Pub 590-B*, Distributions from Individual Retirement Arrangements (IRAs), for more information on waiver requests.

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- (3) An IRA Condition Code 35 indicates a waiver request of tax on excess accumulations on a qualified retirement plan is present. If the IRA Condition Code 35 is present, review the waiver request to determine whether a waiver can be granted.
- (4) IRA Condition Code 35 is visible on CC RTVUE, with definer RY or RZ (indicating two Forms 5329 are present). IRA Condition Code 35 converts to Computer Condition Code (CCC) X and is visible on the MFT 29 account on CC IMFOLR.
- (5) For an electronically filed return, review Modernized e-File (MeF) Return Request Display (RRD) for the waiver explanation. For a paper filed return, request the return from Files to review the waiver request attached to the return. If unable to retrieve the return from files, send the taxpayer Letter 1803C, IRA/Retirement Plan Inquiry, requesting a copy of Form 5329 and waiver explanation.
- (6) If the explanation indicates the excess accumulation was due to a reasonable error and they took reasonable steps to remedy the situation, waive the excess tax. Use the following procedures after reviewing the excess accumulation tax and waiver request:

If	Then
An adjustment is necessary	Adjust following procedures in IRM 21.6.5.4.11.7, Individual Retirement Account File (IRAF) Tax Adjustments.
No adjustment is necessary	<ol style="list-style-type: none"> 1. Notate on CII why the waiver is denied. 2. Send the taxpayer Letter 1803C, IRA/Retirement Plan Inquiry, explaining why the waiver is denied. 3. Refile any paper Forms 1040.

21.6.5.5 (03-09-2023) **Disaster Relief for Individual Retirement Arrangements (IRAs)**

- (1) Under the Disaster Tax Relief and Airport and Airway Extension Act of 2017, the Tax Cuts and Jobs Act, the Bipartisan Budget Act of 2018, the Taxpayer Certainty and Disaster Tax Relief Act of 2019, and the Consolidated Appropriations Act, 2021, special rules apply for using funds in qualified plans and IRAs by victims of qualified 2016 disasters, qualified California wildfires, Hurricanes Harvey, Irma, and Maria, and major disasters occurring in 2018, 2019, and 2020. The relief includes:
 - Disaster distributions of up to \$100,000 from IRAs and certain employer retirement plans
 - Exemption for disaster distributions from the 10% additional tax on early withdrawals
 - Allowing inclusion of any disaster distribution in income over three years
 - Allowing repayment of the disaster distribution up to three years after receipt
 - Allowing the re-contribution of distributions withdrawn for home purchases or construction for a home in the disaster area that was not purchased or constructed because of the disaster (does not apply for victims of qualified 2016 disasters), and

- Increasing the amount of loans and extending loan repayment periods for loans taken from qualified plans (does not apply for victims of qualified 2016 disasters)

Note: To verify if an area was part of a presidentially declared disaster area, visit the *IRS Disaster Assistance Program*

(2) The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law on March 27, 2020. IRC 2202 of the CARES Act provides special rules for using funds in qualified plans and IRAs by individuals affected by the Coronavirus. The relief includes:

- Coronavirus-related distributions of up to \$100,000 from IRAs and certain employer retirement plans
- Exemption for coronavirus-related distributions from the 10% additional tax on early withdrawals
- Allowing inclusion of any coronavirus-related distribution in income over three years
- Allowing repayment of the coronavirus-related distribution up to three years after receipt, and
- Increasing the amount of loans and extending loan repayment periods for loans taken from qualified plans

(3) SECURE Act 2.0, part of the Consolidated Appropriations Act of 2023, effective for disasters occurring on or after January 26, 2021, establishes permanent rules for using funds in qualified plans and IRAs by victims of qualified disasters. The relief includes:

- Permitting up to \$22,000 in qualified disaster recovery distributions that are not subject to the 10% tax on early distributions
- Allowing inclusion of any disaster distribution in income over three years
- Allowing repayment of the disaster distribution up to three years after receipt
- Allowing the re-contribution of distributions withdrawn for home purchases or construction for a home in the disaster area that was not purchased or constructed because of the disaster
- Increasing the amount of loans to \$100,000 and extending loan repayment periods by a year for loans taken from qualified plans

(4) For more information, refer to:

- *Pub 590-A*, Contributions to Individual Retirement Arrangements (IRAs)
- *Pub 590-B*, Distributions from Individual Retirement Arrangements (IRAs)
- *Pub 976*, Disaster Relief
- *Form 8915-A*, Qualified 2016 Disaster Retirement Plan Distributions and Repayments and *Instructions for Form 8915-A, Qualified 2016 Disaster Retirement Plan Distributions and Repayments*
- *Form 8915-B*, Qualified 2017 Disaster Retirement Plan Distributions and Repayments and *Instructions for Form 8915-B, Qualified 2017 Disaster Retirement Plan Distributions and Repayments*
- *Form 8915-C*, Qualified 2018 Disaster Retirement Plan Distributions and Repayments and *Instructions for Form 8915-C, Qualified 2018 Disaster Retirement Plan Distributions and Repayments*

- *Form 8915-D, Qualified 2019 Disaster Retirement Plan Distributions and Repayments and Instructions for Form 8915-D, Qualified 2019 Disaster Retirement Plan Distributions and Repayments*
- *Form 8915-E, Qualified 2020 Disaster Retirement Plan Distributions and Repayments and Instructions for Form 8915-E, Qualified 2020 Disaster Retirement Plan Distributions and Repayments*. For information on how Form 8915-E could be submitted, see *Alternative Filing Method for E-filed Returns That Include Form 8915-e and Form 7202*
- *Form 8915-F, Qualified Disaster Retirement Plan Distributions and Repayments*

Note: Form 8915 does not meet CAT-A criteria under “Disaster Claims”, but does meet CAT-A criteria under “Income - Changes of any income from taxable to non-taxable”. See IRM 21.5.3-2, Examination Criteria (CAT-A) – General, for dollar threshold.

