



# Instructions for Form 8606

## Nondeductible IRAs

Section references are to the Internal Revenue Code unless otherwise noted.

### Changes To Note

Form 8606 has been expanded to include the following:

- New Part II for figuring the taxable amount of conversions from traditional or SIMPLE IRAs to Roth IRAs (see definitions below and on page 2);
- New Part III for figuring the taxable amount of distributions from Roth IRAs; and
- New Part IV for figuring the taxable amount of distributions from Education (Ed) IRAs (see definition on page 2).

## General Instructions

### Purpose of Form

#### Part I

Use Part I of Form 8606 to:

- Report your nondeductible contributions to traditional IRAs,
- Figure the basis in your traditional IRAs, and
- Figure the taxable part of any distributions you received in 1998 from traditional IRAs if you have ever made nondeductible contributions to traditional IRAs.

Your **basis** is the total of all your nondeductible contributions to traditional IRAs minus the total of all nontaxable distributions received from traditional IRAs. It is to your advantage to keep track of your basis because it is used to figure the nontaxable part of future distributions.

**Note:** To figure your deductible contributions to traditional IRAs, see the instructions for Form 1040 or Form 1040A.

#### Part II

Use Part II of Form 8606 to:

- Figure the taxable amount on conversions from traditional or SIMPLE IRAs to Roth IRAs, or
- Show a recharacterization (see page 3 for definition) of amounts that were converted to a Roth IRA.

**Note:** If you converted only part of your traditional or SIMPLE IRAs to Roth IRAs or you received any distributions (withdrawals) from a traditional or SIMPLE IRA during 1998, see the instructions for **Part II** on page 5.

#### Part III

Use Part III of Form 8606 to:

- Figure the taxable amount of any distributions you received from Roth IRAs in 1998, or
- Show a recharacterization (see page 3 for definition) involving a Roth IRA contribution.

**Note:** You may use the worksheet on page 6 to figure your year-end Roth IRA basis amounts.

#### Part IV

Use Part IV of Form 8606 to:

- Figure the taxable amount of any distributions you received from Ed IRAs (see definition on page 2) in 1998, and
- Indicate that you are waiving any exclusion you may be entitled to for your 1998 qualified higher education expenses (see **Checkbox** on page 7 for details).

**Note:** You may use the worksheet on page 7 to figure your year-end basis in Ed IRAs.

### Who Must File

You must file Form 8606 if any of the following apply:

- You made nondeductible contributions to a traditional IRA for 1998,
- You received distributions from a traditional IRA in 1998 **and** you have ever made nondeductible contributions to a traditional IRA,
- You converted part or all of the assets in a traditional or SIMPLE IRA to a Roth IRA during 1998,
- You recharacterized amounts that were converted to a Roth IRA,
- You received distributions from a Roth IRA in 1998,
- You have a recharacterization involving a Roth IRA contribution, or
- You are the beneficiary of an Ed IRA **and** you received distributions from an Ed IRA in 1998.

### When and Where To File

File Form 8606 with your 1998 Form 1040, 1040A, or 1040NR.

If you are required to file Form 8606 but you are not required to file an income tax return, you still **must** file Form 8606. Send it to the Internal Revenue Service at the same time and place you would otherwise file Form 1040, 1040A, or 1040NR.

### Definitions

#### Traditional IRAs

A traditional IRA is an individual retirement account or individual retirement annuity described in sections 408(a) and (b), including a SEP IRA, but not including a SIMPLE IRA, Ed IRA, or Roth IRA.

**Contributions.** You may continue to contribute to traditional IRAs in 1998, although there is an overall contributions limit that applies to traditional IRAs and Roth IRAs. See **Overall IRA Contributions Limit for Traditional IRAs and Roth IRAs** on page 3 for details. Contributions to a traditional IRA may be fully deductible, partially deductible, or completely nondeductible. Deductible contributions to a traditional IRA for 1998 are figured in the **IRA Deduction Worksheet** in the instructions for Forms 1040 and 1040A and are reported on Form 1040, line 23; Form 1040A, line 15; or Form 1040NR, line 24. Nondeductible contributions to a traditional IRA for 1998 are reported in Part I of Form 8606.

**Distributions.** Distributions from traditional IRAs are reported as follows:

- If you have ever made a nondeductible contribution to a traditional IRA, the taxable amount of the distributions is figured in Part I of Form 8606.

- If you never made any nondeductible contributions to a traditional IRA, the entire distribution is taxable and is included on Form 1040, lines 15a and 15b; Form 1040A, lines 10a and 10b; or Form 1040NR, lines 16a and 16b.

#### SEP IRAs

A simplified employee pension (SEP) is an employer-sponsored plan under which an employer can make contributions to IRAs established for its employees. The term SEP IRA means an IRA that receives contributions made under a SEP. The term SEP includes a salary reduction SEP described in section 408(k)(6). See **Pub. 590**, Individual Retirement Arrangements (IRAs), for more details.

#### SIMPLE IRAs

A SIMPLE IRA is an IRA that an employee may contribute to pursuant to a SIMPLE IRA retirement plan. A SIMPLE IRA retirement plan is a plan described under section 408(p) that is set up by certain small employers (including

self-employed individuals) for the benefit of their employees.

**Contributions.** Generally, the employee may only contribute to a SIMPLE IRA through a qualified salary reduction arrangement (although rollovers or transfers from another SIMPLE IRA may be made to the account) and the amount he or she may contribute is limited to \$6,000 a year. The employer also makes contributions to the SIMPLE IRA, subject to limits. Participation in a SIMPLE IRA plan does not prohibit the employee from making contributions to a traditional IRA (i.e., SIMPLE IRA contributions are not taken into account for purposes of the \$2,000 limit discussed under **Overall IRA Contributions Limit for Traditional IRAs and Roth IRAs** on page 3).

However, your contributions to a traditional IRA may not be fully deductible because, as a participant in a SIMPLE IRA, you are covered by an employer retirement plan. Because employee contributions to a SIMPLE IRA are excluded from your income, they are not deductible on Form 1040 nor are they reported as nondeductible contributions on Form 8606.

**Distributions.** Distributions from a SIMPLE IRA are reported in the same way as those from a traditional IRA (discussed on page 1).

**Roth IRAs**

A Roth IRA is an IRA that meets the requirements of section 408A. The account must be designated as a Roth IRA when it is created in order for it to be treated as a Roth IRA for tax purposes. Generally, the same rules that apply to traditional IRAs apply to Roth IRAs. However, for Roth IRAs—

**Roth IRA Contribution Worksheet** (keep for your records)

Complete this worksheet using the instructions under **Roth IRAs** above.

1	Enter your taxable compensation (defined on page 3)	1	_____
2	Enter the smaller of line 1 or \$2,000	2	_____
3	Enter the aggregate amount of contributions you made in 1998 to all traditional IRAs	3	_____
4	Subtract line 3 from line 2	4	_____
5	Enter your modified AGI for purposes of Roth IRAs (see definition above)	5	_____
6	Enter \$150,000 if married filing jointly; \$0 if married filing separately. All other filers enter \$95,000	6	_____
7	Subtract line 6 from line 5. If zero or less, enter -0- on line 7, skip lines 8 through 10, and enter the amount from line 4 on line 11.	7	_____
8	If married filing jointly or married filing separately, enter \$10,000. All other filers enter \$15,000. If the amount on line 7 is greater than or equal to the amount on line 8, <b>stop here</b> ; you may not contribute to a Roth IRA for 1998. See <b>Recharacterizations</b> on page 3	8	_____
9	Divide line 7 by line 8 and enter the result as a decimal (rounded to at least 3 places)	9	_____
10	Multiply line 2 by line 9	10	_____
11	Subtract line 10 from line 2. If the result is not a multiple of \$10, round it up to the next multiple of \$10 (e.g., round \$490.30 to \$500). If the result is \$200 or more, enter the result. But if it is less than \$200, enter \$200	11	_____
12	Enter the smaller of line 4 or line 11. This is the <b>maximum amount you may contribute to a Roth IRA for 1998</b>	12	_____

- Contributions are never deductible,
- Qualified distributions are not includible in income,
- The minimum distribution rules under section 401(a)(9) do not apply during the lifetime of the owner, and
- Contributions can be made after the owner has reached age 70½.

**Contributions.** You cannot contribute to a Roth IRA if your modified adjusted gross income (AGI) (see definition below) exceeds:

- \$10,000 (if your filing status is married filing separately);
- \$160,000 (if your filing status is married filing jointly); or
- \$110,000 (if your filing status is other than the two listed above).

You may use the **Roth IRA Contribution Worksheet** below to figure the maximum amount you can contribute to a Roth IRA.

**Note:** If you contributed to a Roth IRA and subsequently learn that you were not allowed to, see **Recharacterizations** on page 3.

**Modified AGI for purposes of Roth IRAs** is computed as follows. Refigure your AGI on Form 1040, line 33; Form 1040A, line 18; or Form 1040NR, line 33, by:

1. Subtracting out any amount included on Form 1040, line 15b or Form 1040NR, line 16b, due to conversions to Roth IRAs reported in Part II of Form 8606, and
2. Adding back the following:
  - Exclusion of series EE bond interest figured on **Form 8815**, Exclusion of Interest From Series EE U.S. Savings Bonds Issued After 1989.

- Exclusion of employer-provided adoption expenses figured on **Form 8839**, Qualified Adoption Expenses.
- Student loan interest deduction claimed on Form 1040, line 24; Form 1040A, line 16; or Form 1040NR, line 25.
- Foreign earned income exclusion figured on **Form 2555**, Foreign Earned Income, or **Form 2555-EZ**, Foreign Earned Income Exclusion.
- Foreign housing exclusion or deduction figured on Form 2555.
- IRA deduction claimed on Form 1040, line 23; Form 1040A, line 15; or Form 1040NR, line 24.

**Caution:** When figuring "modified AGI for purposes of Roth IRAs," you may have to refigure items based on modified AGI (such as taxable social security benefits and passive activity losses allowed under the special allowance for rental real estate activities).

**Distributions.** See the specific instructions for Part III on page 6.

**Education (Ed) IRAs**

An Ed IRA is a trust or custodial account that is created or organized in the United States exclusively for the purpose of paying the qualified higher education expenses of the designated beneficiary of the account. The account must be designated as an Ed IRA when it is created in order to be treated as an Ed IRA for tax purposes.

**Contributions.** Beginning January 1, 1998, taxpayers may deposit up to \$500 per year into an Ed IRA for a child under age 18. The child, parents, grandparents, other family members, and friends may contribute to the child's Ed IRA, provided the total contributions for the child during the tax year do not exceed the \$500 limit.

In addition to the overall limit of \$500 referred to above, there is another limit that applies to each individual contributor. You cannot contribute to an Ed IRA if:

- Your filing status is married filing jointly and your modified AGI exceeds \$160,000; or
- Your filing status is other than married filing jointly and your modified AGI exceeds \$110,000.

Otherwise, the maximum amount you may contribute to an Ed IRA is figured using the **Ed IRA Contribution Worksheet** on page 3.

**Modified AGI for purposes of figuring the contributions limit to an Ed IRA** is computed as follows. Add to your AGI on Form 1040, line 33; Form 1040A, line 18; or Form 1040NR, line 33, the following:

- Foreign earned income exclusion figured on Form 2555 or Form 2555-EZ,
- Foreign housing exclusion or deduction figured on Form 2555, and
- Income from sources within Puerto Rico, Guam, American Samoa, or the Northern Mariana Islands that was

excluded from your income under section 931 or 933.

**Distributions.** See the specific instructions for Part IV on page 6.

For additional information about Ed IRAs, see Pub. 590.

### Overall IRA Contributions Limit for Traditional IRAs and Roth IRAs

For 1998, there is generally an overall limit of \$2,000 (for each taxpayer) that applies to contributions to traditional IRAs and Roth IRAs. However, the amount of the contributions is also subject to the taxable compensation limit (defined below).

**Note:** For these purposes, the term contributions does not include rollovers (defined on page 5) or conversions from traditional IRAs to Roth IRAs (discussed under Part II on page 5).

**Taxable compensation limit.** The \$2,000 contributions limit referred to above may be reduced to an amount equal to your taxable compensation (if less than \$2,000). **Taxable compensation** includes:

- Wages, salaries, etc.,
- Commissions,
- Self-employment income, and
- Alimony and separate maintenance.

See Pub. 590 for a more comprehensive definition of the term taxable compensation.

### Recharacterizations

Generally, you may correct (or otherwise recharacterize) an IRA contribution or conversion by making a trustee-to-trustee transfer from one IRA to another IRA by the due date (including extensions) of your tax return. (Trustee-to-trustee transfers are those directly between financial institutions.)

Specifically, there are three possibilities:

1. You converted from a traditional IRA to a Roth IRA and subsequently

recharacterized part or all of it back to the traditional IRA.

2. You made a contribution to a traditional IRA and subsequently recharacterized part or all of it to a Roth IRA.

3. You made a contribution to a Roth IRA and subsequently recharacterized part or all of it to a traditional IRA.

Any recharacterized conversions will be treated as never having been converted. Likewise, any recharacterized contributions will be treated as having been contributed to the second IRA (not the first IRA). As such, you must not take a deduction for the contribution to the first IRA for any amounts recharacterized.

The transfer must include earnings that accrued while in the first account. Recharacterizations may not be revoked after the due date (including extensions) of your tax return.

**Caution:** If you made more than one conversion and recharacterization after November 1, 1998, see Pub. 590 for special rules.

**Completion of Form 8606 for Recharacterizations.** The following reporting is required:

**Traditional IRAs—Complete Part I as follows:** If you recharacterized a conversion from a Roth IRA back to a traditional IRA or if you recharacterized contributions to or from a traditional IRA, complete Part I of Form 8606 in a manner that reflects your traditional IRAs after the recharacterization(s).

**Roth IRAs—Complete Part II and/or Part III as follows:** If you recharacterized a conversion from a Roth IRA back to a traditional IRA, complete Part II as follows: On line 14a, show all amounts originally converted, and on line 14b, show any of these amounts that were recharacterized. Complete the remainder of Part II as instructed.

**Note:** You will receive a Form 1099-R for each conversion (showing the distribution from the traditional or SIMPLE IRA) and

a Form 1099-R for each recharacterization (showing the distribution from the Roth IRA). Include the gross distribution amounts from box 1 of each of these forms on Form 1040, line 15a; Form 1040A, line 10a; or Form 1040NR, line 16a. Since the Forms 1099-R reflect fair market value at the time of the distribution(s) or recharacterization(s), the amounts that you enter on this line of your tax return may differ from the amounts you enter on lines 14a and 14b of Form 8606. Attach a statement explaining the difference.

If you recharacterized contributions to or from a Roth IRA, complete Part III as follows: Complete line 19a to show the amount originally contributed to a Roth IRA and line 19b to show amounts recharacterized. If you received a distribution from a Roth IRA during 1998, complete the remainder of Part III as instructed.

**Important:** Attach a statement to Form 8606 that explains the specific details of the recharacterization. For example, in the case of a recharacterized contribution, attach a statement that details the total amount recharacterized. Also show the portion of that total that is original contribution and the portion that is earnings, and the portion of the original contribution that is now deductible, if any.

**Example 1.** On January 2, 1998, Jessica (who is single) converted \$100,000 from a traditional IRA to a Roth IRA. Jessica's basis in the traditional IRA converted was \$35,000. Jessica did not receive any distributions (other than the conversion distribution) from her traditional IRAs during 1998. On January 2, 1998, Jessica also contributed \$2,000 to a Roth IRA for 1998. In April 1999, Jessica determined that her 1998 modified AGI for Roth IRAs was \$111,000. Because her modified AGI was more than the permitted limits for Roth contributions and conversions, Jessica recharacterizes the conversion back to a traditional IRA and recharacterizes the Roth contribution as a nondeductible contribution to a traditional IRA. At the time of the recharacterizations, the \$100,000 originally converted in 1998 is worth \$120,000 and the \$2,000 originally contributed to the Roth IRA is worth \$2,400. Jessica makes a trustee-to-trustee transfer of \$120,000 from the Roth IRA to a traditional IRA for the conversion. Jessica also makes a trustee-to-trustee transfer of \$2,400 from the Roth IRA to a traditional IRA for the contribution.

**Completion of Form 8606 for 1998.** Jessica completes Part I in a manner that reflects her traditional IRA amounts after the recharacterizations. Her nondeductible contribution of \$2,000 is reported on line 1 and her traditional IRA basis of \$35,000 is restored and included on line 2. Because Jessica did not receive any other distributions from her traditional

### Ed IRA Contribution Worksheet (keep for your records)

1	Enter your modified AGI for purposes of figuring the contributions limit to an Ed IRA (see definition on page 2) . . . . .	1	_____
2	Enter \$150,000 if married filing jointly; \$0 if married filing separately; or \$95,000 in the case of all other filers . . . . .	2	_____
3	Subtract line 2 from line 1. If zero or less, enter -0- on line 3, skip lines 4 through 6, and enter \$500 on line 7 . . . . .	3	_____
4	Enter \$10,000 if married filing jointly; \$15,000 in the case of all other filers. If the amount on line 3 is greater than or equal to the amount on line 4, <b>stop here</b> ; you are not allowed to contribute to an Ed IRA for 1998. See <b>Recharacterizations</b> above . . . . .	4	_____
5	Divide line 3 by line 4 and enter the result as a decimal (rounded to at least 3 places) . . . . .	5	_____
6	Multiply line 5 by \$500 . . . . .	6	_____
7	Subtract line 6 from line 3. This is the <b>maximum amount you may contribute to an Ed IRA for 1998</b> . . . . .	7	_____

**Note:** The total Ed IRA contributions from all sources for the child during the tax year may not exceed \$500.

IRA during 1998, she completes lines 3 and 12 as instructed and then goes to Part II. Jessica enters \$100,000 on line 14a. (Jessica also includes \$100,000 on Form 1040, line 15a.) Jessica also enters \$100,000 on line 14b and enters -0- on each of the remaining lines of Part II. In Part III, Jessica is only required to complete lines 19a through 19c because she did not receive any Roth IRA distributions during 1998. Jessica enters \$2,000 on line 19a, \$2,000 as a negative amount on line 19b, and -0- on line 19c.

As a result of the recharacterizations, she receives two Forms 1099-R showing gross distributions of \$120,000 and \$2,400, respectively. She includes these amounts (totalling \$222,400) on Form 1040, line 15a. She includes none of the \$222,400 on line 15b. This is because there is no taxable amount in this example (i.e., since everything was recharacterized, it's as if the conversion never took place.)

Finally, Jessica attaches a statement to her Form 8606 that explains the specific details of the recharacterization. The statement indicates that the total **conversion** recharacterized was \$120,000 and that \$100,000 of that total is the original conversion amount and \$20,000 is earnings. The statement also indicates that \$35,000 of basis was restored on line 2. The statement then indicates that the total **contribution** recharacterized was \$2,400 and that \$2,000 of that total is the original contribution and \$400 is earnings. The statement also indicates that none of the \$2,000 of original contribution is deductible on her 1998 income tax return.

**Example 2.** On January 2, 1998, Jonathan (who is single) contributed \$2,000 to a Roth IRA. In April 1999, Jonathan determined that his 1998 modified AGI (for purposes of the contribution) was \$35,000. Jonathan decides to recharacterize \$1,000 of the Roth IRA contribution as a deductible contribution to a traditional IRA. At the time of the recharacterization, the \$2,000 originally contributed to the Roth IRA is worth \$2,300. Jonathan makes a trustee-to-trustee transfer of \$1,150 from the Roth IRA to a traditional IRA.

**Completion of Form 8606 for 1998.** Jonathan is not required to complete Part I or Part II. In Part III, Jonathan is only required to complete lines 19a through 19c because he did not receive any Roth IRA distributions during 1998. He enters \$2,000 on line 19a, \$1,000 as a negative amount on line 19b, and \$1,000 on line 19c. Jonathan attaches a statement to his Form 8606 that explains the specific details of the recharacterization. The statement indicates that the total contribution recharacterized was \$1,150 and that \$1,000 of that total is the original contribution and \$150 is earnings. The statement also indicates that \$1,000 of the original contribution is deductible on

his 1998 income tax return.

**Example 3.** On January 2, 1998, Julianna (who is single) contributed \$2,000 to a traditional IRA. In April 1999, Julianna determined that her 1998 modified AGI (for purposes of the contribution) was \$37,500. Julianna determines that \$500 of her \$2,000 contribution is deductible and decides to recharacterize the remaining \$1,500 of the traditional IRA contribution as a Roth IRA contribution. At the time of the recharacterization, the \$2,000 originally contributed to the Roth IRA is worth \$2,200. Julianna makes a trustee-to-trustee transfer of \$1,650 from the traditional IRA to a Roth IRA.

**Completion of Form 8606 for 1998.** Julianna is not required to complete Part I or Part II. In Part III, Julianna is only required to complete lines 19a through 19c because she did not receive any Roth IRA distributions during 1998. Julianna enters -0- on line 19a, \$1,500 on line 19b, and \$1,500 on line 19c. Julianna attaches a statement to her Form 8606 that explains the specific details of the recharacterization. The statement indicates that the total contribution recharacterized was \$1,650 and that \$1,500 of that total is the original contribution and \$150 is earnings. The statement also indicates that \$500 of the original contribution is deductible on her 1998 income tax return.

## Penalty for Not Filing

If you are required to file Form 8606 but do not do so, you will have to pay a \$50 penalty for each failure to file this form unless you can show reasonable cause.

## Penalty for Overstatement

If you overstate your nondeductible contributions for any tax year, you must pay a \$100 penalty for each overstatement unless it was due to reasonable cause.

## What Records Must I Keep?

To verify the nontaxable part of distributions from your IRAs, including Ed IRAs, keep a copy of this form together with copies of the following forms and records (for this year and for all applicable prior years) until all distributions are made from your IRA(s):

- Page 1 of Forms 1040 (or Forms 1040A, 1040NR, or 1040-T) filed for each year you made a nondeductible contribution to a traditional IRA.
- Forms 5498 or similar statements received each year showing contributions you made to a traditional IRA, Roth IRA, or Ed IRA.
- Forms 5498 or similar statements received showing the value of your traditional IRA(s) and Ed IRA(s) for each year you received a distribution.

- Forms 1099-R and W-2P received for each year you received a distribution.
- Note:** Forms 1040-T and W-2P are forms that were used in prior years. If applicable, keep copies of those prior year forms to verify the nontaxable part of IRA distributions.

## Amending Form 8606

After you file your return, you may change a nondeductible contribution to a traditional IRA made on a prior year's return to a deductible contribution or vice versa. To do this, complete a new Form 8606 showing the revised information and attach it to **Form 1040X**, Amended U.S. Individual Income Tax Return. Send both of these forms to the Internal Revenue Service Center for your area as shown in the Form 1040X instructions.

**Caution:** You may **not** change amounts between Roth IRAs and traditional IRAs after the return has been filed. See **Recharacterizations** on page 3 for more information.

## Additional Information

For more details on nondeductible IRAs, see Pub. 590.

## Specific Instructions

**Name and social security number.** If you file a joint return on Form 1040 or Form 1040A, enter the name and social security number of the spouse whose IRA information is shown.

## Part I—Traditional IRAs (Nondeductible Contributions, Distributions, and Basis)

If you converted part or all of your traditional IRAs to Roth IRAs during 1998, see the instructions for Part II before completing the form.

### Line 1

**If you used the IRA Deduction Worksheet in the Form 1040 instructions,** follow these instructions to figure the amount to include on line 1 of Form 8606.

- Subtract the amount shown on line 10 of the worksheet from the **smaller** of the amount shown on line 8 or line 9 of that worksheet. Enter on line 1 of Form 8606 the part of the result that you choose to be nondeductible.
- If you choose not to deduct the full amount shown on line 10 of the worksheet, subtract the amount you are deducting from the amount on line 10. Enter the result on line 1 of Form 8606. You cannot take a deduction for the part included on line 1.
- If you are married filing a joint return and the amount on line 8 of the worksheet was less than \$4,000, enter on line 1 of

Form 8606 any nondeductible contributions from the appropriate lines of the IRA worksheet in Pub. 590.

**If you used the IRA Deduction Worksheet in the Form 1040A instructions,** follow these instructions.

- Subtract the amount shown on line 8 of the worksheet from the **smaller** of the amount shown on line 6 or line 7 of that worksheet. Enter on line 1 of Form 8606 the part of the result that you choose to be nondeductible.
- If you choose not to deduct the full amount shown on line 8 of the worksheet, subtract the amount you are deducting from the amount on line 8. Enter the result on line 1 of Form 8606. You cannot take a deduction for the part included on line 1.
- If you are married filing a joint return and the amount on line 6 of the worksheet was less than \$4,000, enter on line 1 of Form 8606 any nondeductible contributions from the appropriate lines of the IRA worksheet in Pub. 590.

**If none of your contributions are deductible,** you may choose to make nondeductible contributions up to \$2,000 (but not more than your taxable compensation, which is defined on page 3). If you are married filing a joint return and your taxable compensation is less than your spouse's, you may treat your spouse's higher compensation as your own. Enter on line 1 of Form 8606 your contributions that you choose to make nondeductible.

**Line 2**

If this is the first year you are required to file Form 8606, enter zero. Otherwise, use the chart below to find the amount to enter on line 2.

IF the last Form 8606 you filed was for...	THEN enter on line 2...
A year after 1992	The amount from line 12 of the <b>last</b> Form 8606 you filed
A year after 1988 but before 1993	The amount from line 14 of the <b>last</b> Form 8606 you filed
1988	The total of the amounts on lines 7 and 16 of that Form 8606
1987	The total of the amounts on lines 4 and 13 of that Form 8606

**Line 4**

If you made contributions in 1998 and 1999 that are for 1998, you may choose to apply the contributions made in 1998 first to nondeductible contributions and then to deductible contributions, or vice

versa. But the amount on line 1 minus the amount on line 4 cannot be more than the IRA contributions you actually made in 1998.

**Example.** You made contributions of \$1,000 in 1998 and \$1,000 in 1999 of which \$1,500 are deductible and \$500 are nondeductible. You choose \$500 of your contribution in 1998 to be nondeductible. In this case, the \$500 would be entered on line 1, but not on line 4, and would become part of your basis for 1998.

**Line 5**

Although the 1998 contributions you made during 1/1/99–4/15/99 to traditional IRAs (line 4) can be treated as nondeductible for purposes of line 1, they are not included in your basis for purposes of figuring the nontaxable part of any distributions you received in 1998 from traditional IRAs. This is why you subtract line 4 from line 3.

**Line 6**

Enter the total value of **ALL** your traditional IRAs (including SEP IRAs) and SIMPLE IRAs as of 12/31/98 **plus** any outstanding rollovers. You should receive a statement by 2/1/99 for each IRA account showing the value on 12/31/98. In this context, a **rollover** is a tax-free distribution from one traditional IRA that is contributed to another traditional IRA. The rollover must be completed within 60 days of receiving the distribution from the first IRA. An **outstanding rollover** is any amount distributed to you from one traditional IRA within 60 days before the end of 1998 (between Nov. 2 and Dec. 31) that you did not roll over to another traditional IRA by 12/31/98, but that you roll over to another traditional IRA in 1999 within the normal 60-day rollover period.

**Line 7**

**Caution:** *If you received a distribution in 1998 from a traditional IRA and you also made contributions for 1998 to a traditional IRA that may not be fully deductible because of the income limits, you need to make a special computation before completing this form. For details, including how to complete Form 8606, see **Tax Treatment of Distributions** in Chapter 1 of Pub. 590.*

- Do not include on line 7:
- Distributions from a traditional IRA in 1998 that are converted to a Roth IRA,
  - Distributions received from a traditional IRA in 1998 and rolled over to another traditional IRA by 12/31/98,
  - Outstanding rollovers included on line 6,
  - Contributions under section 408(d)(4) to a traditional IRA returned to you on or before the due date of the return, or
  - Excess contributions under section 408(d)(5) to a traditional IRA returned to you after the due date of the return.

**Line 11**

This is the total of your nondeductible contributions made in 1998 and earlier years to traditional IRAs minus the total of any nontaxable distributions received in those years from traditional IRAs.

**Line 12**

This is your cumulative basis in traditional IRAs as of 12/31/98. It includes any nondeductible contributions for 1998 that you made in 1999 by 4/15/99 to traditional IRAs. This amount will be used on Form 8606 in future years if you make nondeductible contributions to traditional IRAs or receive distributions from traditional IRAs.

**Part II—Conversions From Traditional IRAs to Roth IRAs**

**Note:** *For purposes of Part II, references to traditional IRAs include SIMPLE IRAs.*

**Caution:** *If your filing status is married filing separately or if your modified AGI for purposes of Roth IRAs (defined on page 2) is more than \$100,000, you may not convert any part of 1998 distributions from your traditional IRAs to Roth IRAs. If you erroneously made a conversion, you must recharacterize the conversion (see page 3 for details).*

**If you converted only part of your traditional IRAs to Roth IRAs or if you received any other distributions (withdrawals) from traditional IRAs during 1998,** complete Parts I and II of Form 8606 as follows:

1. Complete lines 1 through 5 and lines 14a through 14c as instructed on the form.
  2. Complete line 6 as instructed. Be sure the total reflects total value after all recharacterizations (even those after 12/31/98).
  3. Complete line 7 as instructed. Be sure **not** to include amounts rolled over or amounts that were converted to a Roth IRA.
  4. For line 8, enter the total of lines 6, 7, and 14c. **Note:** For lines 7 and 14c, do not include amounts rolled over (since these amounts are included in line 6).
  5. Complete lines 9 and 10 as instructed on the form.
  6. For line 11, multiply line 9 by line 14c and add the result to the amount on line 10. Subtract the sum from line 5 and enter the result on line 11.
  7. Complete lines 12 and 13 as instructed on the form.
  8. For line 15, multiply line 9 of the form by line 14c of the form.
  9. Complete lines 16 and 17 as instructed on the form.
- If you converted all of your traditional IRAs to Roth IRAs and received no other distributions (withdrawals) from traditional IRAs during 1998:**
1. If you had never made any

nondeductible contributions to a traditional IRA before the conversion, enter zero on line 15.

2. Otherwise, use the chart in the instructions for line 2 on page 5 to find the amount to enter on line 15. If you made any nondeductible contributions to a traditional IRA in 1998 before the conversion, add that amount to the amount indicated in the chart on page 5.

### Line 17

In most cases, you can include the entire taxable amount on line 16 in your income for 1998 or spread it over 4 years.

If the box on line 17 is **not** checked, you are deemed to have elected to spread the taxable amount on line 16 over 4 years. An election, or deemed election, cannot be changed after the due date (including extensions) for your tax return.

If the taxpayer died during 1998 after making a conversion, the conversion gain may not be spread over 4 years. The tax return of the deceased taxpayer must show (a) the entire gain in 1998, or (b) a recharacterization (see page 3) of the conversion amounts.

**Exception for surviving spouse.** A surviving spouse who acquires an entire interest in amounts that his or her spouse converted to Roth IRAs may elect to treat the remaining amounts as includible in income in the same way that the deceased taxpayer would have included them on his or her return.

## Part III—Distributions From Roth IRAs

You are required to complete Part III to figure the taxable part of any Roth IRA distributions you received in 1998.

**Tip:** *Even if you are not required to complete Part III, it is to your advantage to complete the worksheet above to figure your year-end Roth IRA basis amounts. This is because future distributions of these basis amounts are not taxable to you.*

The taxable part of current-year distributions from Roth IRAs are based on ordering rules. The ordering is as follows:

1. Roth IRA contributions. Distributions are first considered as coming from yearly Roth IRA contributions allowable under section 408A(c)(2). These amounts represent a return of basis and, as such, they are not taxable to you. Complete the worksheet above to keep a running balance of your basis in Roth IRA contributions.

2. Accelerated income inclusion. If, in 1998, you converted amounts from traditional or SIMPLE IRAs to Roth IRAs, you are allowed to spread the taxable amount evenly over a 4-year period. However, if you receive distributions (withdrawals) of conversion amounts in 1998, you may be required to include

## Worksheet for Determining Roth IRA Basis Amounts (keep for your records)

**Tip:** You should complete this worksheet even if you were not required to complete Part III. It is to your advantage to keep track of these basis amounts because they are used to figure the nontaxable part of future distributions.

1	Did you receive any distributions (withdrawals) from any of your Roth IRA accounts during 1998? If "Yes," go to line 2. If "No," skip lines 2 through 4 and enter your regular Roth IRA contributions for 1998 after recharacterizations on line 5 below. Then, skip lines 6 through 10 and enter the amount from line 14c of Form 8606 on line 11 below.	
2	Did you enter -0- on line 20 of Form 8606? If "Yes," go to line 3. If "No," skip lines 3 and 4 and enter -0- on line 5.	
3	Enter the amount from line 19c of Form 8606 . . . . .	3 _____
4	Enter the amount from line 18 of Form 8606 . . . . .	4 _____
5	Subtract line 4 from line 3. This is the <b>basis in your Roth IRA contributions as of 12/31/98</b> . . . . .	5 _____
6	Is line 5 greater than zero? If "Yes," skip lines 7 through 10 and enter the amount from line 14c of Form 8606 on line 11 below. If "No," go to line 7.	
7	Enter the amount from line 14c of Form 8606 . . . . .	7 _____
8	Enter the amount, if any, from line 22 of Form 8606 . . . . .	8 _____
9	Enter the smaller of line 23 or 24 of Form 8606 . . . . .	9 _____
10	Add lines 8 and 9 . . . . .	10 _____
11	Subtract line 10 from line 7. This is the <b>basis in your Roth conversions as of 12/31/98</b> . . . . .	11 _____

more than one-fourth of the taxable amount in your income in 1998. For 1998, this inclusion is figured on lines 21 and 22.

3. Amounts converted from traditional or SIMPLE IRAs to Roth IRAs. These amounts represent a return of basis and, as such, they are not taxable to you. Complete the worksheet above to keep a running balance of your basis in Roth conversions.

4. Remainder. This amount is includible in your income as it represents cumulative earnings on your Roth IRAs. For 1998, this amount is figured on line 25.

### Line 18

Do not include on line 18 distributions received from a Roth IRA in 1998 and rolled over to another Roth IRA within 60 days.

### Line 19a

Do not include on line 19a contributions that were returned to you because they were excess contributions.

### How To Report Recharacterizations

**Example of a contribution to a traditional IRA that is recharacterized to a Roth IRA.** In January 1998, Jenna contributed \$2,000 to a traditional IRA. In April 1999, she decided to recharacterize the contribution (which is now worth \$2,500) to a Roth IRA. She enters -0- on line 19a and \$2,000 (not \$2,500) on lines 19b and 19c.

### Example of a contribution to a Roth IRA that is recharacterized to a traditional IRA.

In January 1998, Julianna contributed \$2,000 to a Roth IRA. In April 1999, she decided to recharacterize the contribution (which is now worth \$2,500) to a traditional IRA. She enters \$2,000 on line 19a, \$2,000 as a negative amount (not \$2,500) on line 19b, and -0- on line 19c.

### Lines 22 and 25—Additional 10% Tax

If you have an amount on line 22, you may be subject to an additional 10% tax. To determine the amount that may be subject to the additional tax, first subtract line 15 from line 23. If the result is greater than zero, add it to the amount you entered on line 22 and include the sum total on line 1 of Form 5329. If the result is not greater than zero, include the amount from line 22 of Form 8606 on line 1 of Form 5329.

## Part IV—Distributions From Education (Ed) IRAs

### Before you begin:

1. If the total of Ed IRA contributions made for 1998 on behalf of the beneficiary is more than \$500, the excess contributions (plus earnings) must be distributed before the due date of the beneficiary's return. Otherwise, the beneficiary is subject to the excess contributions penalty. See Form 5329 for

details, including how to figure the penalty.

2. If the beneficiary had more than one Ed IRA account for 1998, you must complete the worksheet on this page for each of the accounts.

**Line 27**

Enter the total Ed IRA distributions (withdrawals) received in 1998. Do not include amounts rolled over within 60 days of receipt. Only one distribution eligible for rollover treatment may be made during any 12-month period.

If the beneficiary attains age 30 or dies, the account balance must generally be distributed to the beneficiary (or to the estate of the beneficiary) within 30 days after the beneficiary attains age 30 or dies. Generally, any unused Ed IRA account balance can be rolled over to the Ed IRA of certain family members who can use it for their higher education. (The same result may generally be accomplished by changing the beneficiary of the existing account.)

**Line 28**

Qualified higher education expenses are generally tuition, fees, books, supplies, and equipment required for the enrollment or attendance of the beneficiary at an eligible educational institution. The term also includes reasonable costs incurred by the beneficiary for room and board while attending the eligible educational institution provided the beneficiary is attending at least half-time. See Pub. 590 for more details.

**Checkbox.** The education credits may not be claimed for a student's expenses in a tax year in which the student takes a tax-free withdrawal from an Ed IRA. Therefore, if you wish to claim either of these credits, you must check the "Yes" box on line 28 to indicate that you are waiving any exclusion of a distribution from an Ed IRA you may be entitled to for your 1998 qualified higher education expenses.

**Note:** No deduction or credit (e.g., a business expense deduction for education expenses under section 162) is allowed for any qualified education expenses to the extent they are taken into account in determining the amount of the exclusion.

**Line 29**

**Instructions for Ed IRA Worksheet**

**Line 3.** Enter on line 3 the portion of line 27 of Form 8606 that is attributable to this account.

**Line 4.** Enter on line 4 the portion of line 28 of Form 8606 that is attributable to this account.

**Line 6.** Enter the total value of this account as of 12/31/98 plus any outstanding rollovers. You should receive

**Ed IRA Worksheet—Distributions and Bases (keep for your records)**

If line 27 of Form 8606 is more than line 28 of that form, use this worksheet to figure the amount of taxable distributions you received from Ed IRAs in 1998. Also use this worksheet to figure your year-end basis in each of your Ed IRA accounts.

**Tip:** You may wish to complete this worksheet merely to figure your basis (even if you are not required to complete Part IV). It is to your advantage to keep track of your basis because it is used to figure the nontaxable part of future distributions.

**A** Enter the total of **all** amounts contributed in 1998 to **all** Ed IRAs for which you are the beneficiary of the account . . . . . ►

*Complete lines 1 through 15 separately for each of your Ed IRA accounts.*

**1** Enter the portion of line A above that was contributed to this account . . . . . **1** \_\_\_\_\_

**2** Did you receive any distributions (withdrawals) during 1998 from this account?  
If "Yes," go to line 3.  
If "No," enter the amount from line 1 on line 15 and do not complete the remainder of this worksheet for this account.

**3** Enter the total amount of all distributions (withdrawals) you received from this account in 1998. Do not include amounts rolled over within 60 days of receipt. See instructions . . . . . **3** \_\_\_\_\_

**4** Enter the amount of qualified higher education expenses (see instructions) that were paid for with distributions from this account . . . . . **4** \_\_\_\_\_

**5** Subtract line 4 from line 3 . . . . . **5** \_\_\_\_\_

**6** Enter the total value of this account as of 12/31/98 plus any outstanding rollovers. See instructions . . . . . **6** \_\_\_\_\_

**7** Add lines 3 and 6 . . . . . **7** \_\_\_\_\_

**8** Divide line 1 by line 7 and enter the result as a decimal (rounded to at least 3 places). Do not enter more than "1.000" . . . . . **8** \_\_\_\_\_

**9** Multiply line 3 by line 8. This is the nontaxable portion of your Ed IRA distributions from this account . . . . . **9** \_\_\_\_\_

**Note:** If line 5 is zero, skip lines 10 through 13, enter -0- on line 14, and go to line 15.

**10** Subtract line 9 from line 3 . . . . . **10** \_\_\_\_\_

**11** Did you check the box on line 28 of the form?  
If "Yes," enter the amount from line 10 on line 14 and go to line 15.  
If "No," go to line 12.

**12** Divide line 4 by line 3 and enter the result as a decimal (rounded to at least 3 places). Do not enter more than "1.000" . . . . . **12** \_\_\_\_\_

**13** Multiply line 10 by line 12 . . . . . **13** \_\_\_\_\_

**14** Subtract line 13 from line 10. This is the amount of **taxable distributions you received from this account in 1998**. Enter the result here and include it on line 29 of Form 8606 . . . . . **14** \_\_\_\_\_

**15** Subtract line 9 from line 1. This is the **basis in this Ed IRA account as of 12/31/98** . . . . . **15** \_\_\_\_\_

a statement by 2/1/99 for each IRA account showing the value on 12/31/98. In this context, a **rollover** is a tax-free distribution from one Ed IRA that is contributed to another Ed IRA. The rollover must be completed within 60 days of receiving the distribution from the first Ed IRA. An **outstanding rollover** is any amount distributed to you from one Ed IRA within 60 days before the end of 1998 (between Nov. 2 and Dec. 31) that you did not roll over to another Ed IRA by 12/31/98, but that you roll over to another Ed IRA in 1999 within the normal 60-day rollover period.

**Additional 10% Tax**

If you have a taxable amount on line 29, you may be subject to an additional 10% tax. The tax is figured in Part II of Form 5329.

**Exceptions.** The 10% additional tax does not apply to distributions that are—

- Due to the death or disability of the beneficiary;
- Made on account of a scholarship, allowance, or payment described in section 25A(g)(2);
- Taxable solely because you made the election described under **Checkbox** in the instructions for line 28 above.

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The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: **Recordkeeping**, 53 min.;

**Learning about the law or the form**, 2 hr., 0 min.; **Preparing the form**, 1 hr., 46 min.; **Copying, assembling, and sending the form to the IRS**, 1 hr., 43 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.