



Instructions for Form 8606

Nondeductible IRAs

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

Changes To Note

- You may have until October 16, 2000, to recharacterize (correct) your 1999 IRA contributions or Roth IRA conversions. See page 3.
- There are limits on the number of times you can convert amounts from a traditional or SIMPLE IRA to a Roth IRA. See page 6.

General Instructions

Purpose of Form

Use Form 8606 to report:

- Nondeductible contributions to traditional IRAs,
- Distributions from traditional or SIMPLE IRAs, if you have ever made nondeductible contributions to traditional IRAs,
- Distributions from Roth IRAs,
- Distributions from education (Ed) IRAs,
- Conversions from traditional or SIMPLE IRAs to Roth IRAs, and
- Recharacterizations of Roth IRA conversions or contributions to or from a Roth IRA.

Additional information. See **Pub. 590**, Individual Retirement Arrangements (IRAs), and Regulations section 1.408A for more details.

TIP *If you received distributions from a traditional or SIMPLE IRA in 1999 and you have never made nondeductible contributions to traditional IRAs, **do not** report the distributions on Form 8606. Instead, see the instructions for Form 1040, lines 15a and 15b; Form 1040A, lines 10a and 10b; or Form 1040NR, lines 16a and 16b. Also, to find out if any of your contributions to traditional IRAs are deductible, see the instructions for Form 1040, line 23; Form 1040A, line 15; or Form 1040NR, line 24.*

Who Must File

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

- You made nondeductible contributions to a traditional IRA for 1999.
- You received distributions from a traditional or SIMPLE IRA in 1999 **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 in 1999 (even if you later recharacterized the conversion).
- You received distributions from a Roth IRA in 1999.
- You recharacterized a 1999 Roth IRA contribution as a traditional IRA contribution, or vice versa.
- You are the beneficiary of an Ed IRA **and** you received distributions from an Ed IRA in 1999.

TIP *You are **not** required to file Form 8606 solely to report contributions to Roth IRAs. But see **What Records Must I Keep?** on page 4.*

1998 Roth IRA Conversions

If you converted a traditional IRA to a Roth IRA in 1998 and are reporting the taxable portion of the conversion over 4 years, you must include the 1999 taxable portion on Form 1040, line 15b; Form 1040A, line 10b; or Form 1040NR, line 16b. The 1999 taxable portion is generally the same amount as you reported on your 1998 Form 8606, line 17. However, if you received a Roth IRA distribution in 1998, the 1999 taxable portion cannot exceed the amount from your 1998 Form 8606, line 16, reduced by the sum of lines 17 and 22 of that Form 8606.

How To Report

Report the 1999 taxable portion of your 1998 Roth IRA conversion as follows.

- If you did not receive a Roth IRA distribution in 1999, include the 1999 taxable portion of your Roth IRA conversion on Form 1040, line 15b; Form 1040A, line 10b; or Form 1040NR, line 16b. **Do not** file Form 8606 unless you are otherwise required to do so.
- If you received a Roth IRA distribution in 1999, complete lines 17 through 19 of Form 8606, Part III. If line 19 is zero, **do not** complete the rest of Part III, and include the 1999 taxable portion of your 1998 Roth IRA conversion on Form 1040, line 15b; Form 1040A, line 10b; or Form 1040NR, line 16b. If line 19 is more than zero, complete the rest of Part III as indicated. The 1999 taxable portion of your 1998 Roth IRA conversion will be entered on line 20c and included in the total on line 27. Include the total from line 27 on Form 1040, line 15b; Form 1040A, line 10b; or Form 1040NR, line 16b; and attach Form 8606 to your tax return.

Death of Roth IRA owner. If the owner of the Roth IRA died in 1999, the entire amount not taxed in 1998 must generally be reported on the decedent's final tax return. However, a surviving spouse who acquires the entire interest in all of the decedent's Roth IRAs may elect to continue to report the taxable amount over the remaining 3 tax years.

To make the election, attach a statement to the surviving spouse's timely filed 1999 tax return (and to the decedent's final return, if a joint return is not filed). Include the following items on the election statement.

- A statement that the surviving spouse elects to continue to report the taxable portion from the decedent's 1998 Roth IRA conversion over the remaining 3 tax years.
- The names and social security numbers of the surviving spouse and the decedent.
- The total taxable amount of the decedent's 1998 Roth IRA conversion

from the decedent's 1998 Form 8606, line 16.

- The amount, if any, reported on the decedent's 1998 Form 8606, line 22.

The surviving spouse must report as a taxable IRA distribution for 1999 the same amount as the decedent would have reported, and in the same manner, on the surviving spouse's tax return. See Pub. 590 for details.

When and Where To File

File Form 8606 with your 1999 Form 1040, 1040A, or 1040NR. If you are not required to file an income tax return but are required to file Form 8606, sign Form 8606 and 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 an individual retirement annuity. It includes a SEP IRA but does not include a SIMPLE IRA, Ed IRA, or Roth IRA.

Contributions. There is an overall contribution limit that applies to traditional IRAs and Roth IRAs. See page 3. Contributions to a traditional IRA may be fully deductible, partially deductible, or completely nondeductible.

Basis. Your basis in traditional IRAs is the total of all your nondeductible contributions to traditional IRAs minus the total of all your nontaxable distributions. You must keep track of your basis to figure the nontaxable part of your future distributions.

SEP IRAs

A simplified employee pension (SEP) is an employer-sponsored plan under which an employer can make contributions to traditional IRAs established for its employees.

SIMPLE IRAs

If your employer has a SIMPLE IRA retirement plan, you or your employer may make contributions to your SIMPLE IRA. Your participation in a SIMPLE IRA plan does not prevent you from making contributions to a traditional or Roth IRA. SIMPLE IRA distributions are reported in the same manner as traditional IRA distributions.

Education (Ed) IRAs

An Ed IRA is a trust or custodial account created exclusively for paying the qualified higher education expenses of a designated beneficiary. See Pub. 590 for details on Ed IRAs.

Roth IRAs

A Roth IRA is similar to a traditional IRA but it is designated as a Roth IRA when it is set up. Roth IRAs have the following features.

- Contributions are never deductible.
- Contributions can be made after the owner reaches age 70½.
- No minimum distributions are required during the lifetime of the owner.
- Qualified distributions are not includible in income.

A **qualified distribution** is generally any distribution made on or after age 59½, upon death, due to disability, or that is a qualified first-time homebuyer distribution. However, any distribution made during the 5 year period beginning with the first year for which you made a Roth IRA contribution or conversion is **not** a qualified distribution, and may be taxable.

Contributions. You can contribute to a Roth IRA only if your 1999 modified adjusted gross income (AGI) for Roth IRA purposes is less than:

- \$10,000 if married filing separately and you lived with your spouse at any time in 1999;
- \$160,000 if married filing jointly; or
- \$110,000 if single, head of household, or qualifying widow(er), or if married filing separately and you did not live with your spouse at any time in 1999.

Use the **Maximum Roth IRA Contribution Worksheet** below to figure the maximum amount you can contribute to a Roth IRA for 1999.



If you contributed to a Roth IRA and later learn you were

Recharacterizations on page 3.

Modified AGI for Roth IRA

purposes. Refigure your AGI from Form 1040, line 33; Form 1040A, line 18; or Form 1040NR, line 33; by:

1. Subtracting any amount due to Roth IRA conversions included on Form 1040, line 15b; Form 1040A, line 10b; or Form 1040NR, line 16b; and

2. Adding the following:

- IRA deduction from Form 1040, line 23; Form 1040A, line 15; or Form 1040NR, line 24;
- Student loan interest deduction from Form 1040, line 24; Form 1040A, line 16; or Form 1040NR, line 25;
- Exclusion of interest from **Form 8815**, Exclusion of Interest From

Maximum Roth IRA Contribution Worksheet (keep for your records)



If married filing jointly, and the combined taxable compensation for you and your spouse is less than \$4,000, do not use this worksheet. Instead, see Pub. 590 for special rules.

1	If married filing jointly, enter \$2,000. All others, enter the smaller of \$2,000 or your taxable compensation (defined on page 3)	1 _____
2	Enter your total contributions to traditional IRAs for 1999	2 _____
3	Subtract line 2 from line 1	3 _____
4	Enter: \$160,000 if married filing jointly; \$10,000 if married filing separately and you lived with your spouse at any time in 1999. All other filers, enter \$110,000	4 _____
5	Enter your modified AGI for Roth IRA purposes (see above)	5 _____
6	Subtract line 5 from line 4. If zero or less, stop here ; you may not contribute to a Roth IRA for 1999. See Recharacterizations on page 3 if you made Roth IRA contributions for 1999	6 _____
7	If line 4 above is \$110,000, enter \$15,000; otherwise, enter \$10,000. If line 6 is more than or equal to line 7, skip lines 8 and 9, and enter the amount from line 3 on line 10	7 _____
8	Divide line 6 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 1 by line 8. 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). Enter the result, but not less than \$200	9 _____
10	Maximum 1999 Roth IRA Contribution. Enter the smaller of line 3 or line 9. See Recharacterizations on page 3 if you contributed more than this amount to Roth IRAs for 1999	10 _____

Series EE and I U.S. Savings Bonds Issued After 1989;

- Exclusion of employer-provided adoption benefits from **Form 8839**, Qualified Adoption Expenses;
- Foreign earned income exclusion from **Form 2555**, Foreign Earned Income, or **Form 2555-EZ**, Foreign Earned Income Exclusion; and
- Foreign housing exclusion or deduction from Form 2555.



When figuring modified AGI for Roth IRA purposes, 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 instructions for Part III on page 6.

Overall Contribution Limit for Traditional and Roth IRAs

If you are **not** married filing jointly, your limit on contributions to traditional and Roth IRAs is the **smaller** of \$2,000 or your taxable compensation (see below). If you are married filing jointly, your contribution limit is generally \$2,000 (and your spouse's contribution limit is \$2,000 as well). But if the combined taxable compensation of both you and your spouse is less than \$4,000, see Pub. 590 for special rules. This limit does not apply to employer contributions to a SEP IRA.

Note: *The amount you may contribute to a Roth IRA may also be limited by your modified AGI (see **Roth IRAs** on page 2).*

Taxable compensation includes the following.

- Wages, salaries, tips, etc.
- Self-employment income. If you are self-employed (a sole proprietor or a partner), taxable compensation is your net earnings from your trade or business (provided your personal services are a material income-producing factor), reduced by your deduction for contributions made on your behalf to retirement plans and the deduction allowed for one-half of your self-employment tax.
- Alimony and separate maintenance.

See Pub. 590 for more details.

Note: *Rollovers and Roth IRA conversions **do not** affect your contribution limit.*

Recharacterizations

Generally, you may recharacterize (correct) an IRA contribution or Roth IRA conversion by making a trustee-to-trustee transfer from one IRA to another IRA.

Trustee-to-trustee transfers are those directly between financial institutions. You must generally make the transfer by the due date of your return (including extensions) and reflect it on your return. However, if you timely file your return without making the transfer, you may still make the transfer within 6 months of the due date of your return, excluding extensions. If necessary, file an amended return reflecting the transfer. Write "Filed pursuant to section 301.9100-2" on the amended return and file it at the same place you filed the original return.

There are three types of recharacterizations:

1. You converted from a traditional (or SIMPLE) IRA to a Roth IRA and later recharacterize part or all of it back to a traditional (or SIMPLE) IRA.
2. You made a contribution to a traditional IRA and later recharacterize part or all of it to a Roth IRA.
3. You made a contribution to a Roth IRA and later recharacterize part or all of it to a traditional IRA.

Any recharacterized conversion will be treated as though it had not occurred. Any recharacterized contributions will be treated as having been contributed to the second IRA and not the first IRA. You cannot take a deduction for a contribution to a traditional IRA if the amount is later recharacterized.

The transfer **must** include related earnings.

Completion of Form 8606 for Recharacterizations

Traditional IRAs. Complete Part I of Form 8606 to reflect your traditional IRAs after the recharacterization. For example, you convert a traditional IRA to a Roth IRA. Later, you recharacterize the balance from the Roth IRA back to a traditional IRA. You should disregard the conversion to the Roth IRA and restore the original balances for your traditional IRAs on Part I.

Roth IRAs. If you convert a traditional (or SIMPLE) IRA to a Roth IRA and later recharacterize part or all of the amount back to a traditional (or SIMPLE) IRA, complete Part II as follows:

1. On line 14a, report the amount you originally converted.
2. On line 14b, report the portion of the amount you originally converted that you recharacterized (excluding earnings).
3. On line 14c, show the net result after any changes. If you recharacterized the entire amount you converted, lines 14a and 14b will be the same and line 14c will be zero, so you may skip the rest of Part II.
4. Complete the remainder of Part II as instructed.

Statement explaining recharacterization.

Attach a statement to Form 8606 that explains the specific details of the recharacterization. For example, for a recharacterized contribution, attach a statement that shows the total amount recharacterized. Also show the part that is the original contribution, the part that is earnings, and the part that is now deductible, if any.

If you recharacterized contributions to or from a Roth IRA, complete Part III. Enter on line 18b the amount originally contributed to a Roth IRA and on line 18c the amount recharacterized. If you received a distribution from a Roth IRA in 1999, complete the rest of Part III as instructed.

Note: *You may 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 IRA). Or, you may receive one Form 1099-R showing the net results of all your transactions, with instructions on how to enter amounts on Form 8606 and on your tax return. In either case, include the gross distribution from box 1 of all Forms 1099-R on Form 1040, line 15a; Form 1040A, line 10a; or Form 1040NR, line 16a. Since the Forms 1099-R reflect the fair market value at the time of the distribution or recharacterization, 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 **do not** receive a Form 1099-R before you file your return, use other appropriate records.

Example 1. On May 4, 1999, Jodi (who is single) converted \$100,000 from a traditional IRA to a Roth IRA. Her basis in the traditional IRA was \$10,000. On May 4, 1999, Jodi also contributed \$2,000 to a Roth IRA for 1999.

On March 31, 2000, Jodi determined that her 1999 modified AGI for Roth IRA purposes is \$111,000, which is more than the permitted limits for Roth IRA contributions and conversions. Jodi recharacterizes the conversion back to a traditional IRA and recharacterizes the Roth IRA contribution to a traditional IRA.

As of March 31, 2000, the \$100,000 converted in 1999 is worth \$120,000 and the \$2,000 contribution to the Roth IRA is worth \$2,400. Jodi makes a trustee-to-trustee transfer of \$120,000 from the Roth IRA to a traditional IRA to recharacterize the conversion. Jodi also makes a trustee-to-trustee transfer of \$2,400 from the Roth IRA to a traditional IRA to recharacterize the contribution.

Completion of Form 8606. Jodi enters her nondeductible contribution of \$2,000 on line 1. Her traditional IRA basis of \$10,000 is restored and included on line 2. Because Jodi did not receive any other distributions from her traditional IRA in 1999, she then completes only lines 3 and 12 as instructed.

In Part II, Jodi enters \$100,000 on line 14a. She also enters \$100,000 on line 14b and -0- on line 14c. She does not include the \$20,000 of earnings on line 14b.

In Part III, Jodi is only required to complete lines 18b through 18d because she did not receive any Roth IRA distributions in 1999. Jodi enters \$2,000 on line 18b, \$2,000 as a negative amount on line 18c, and -0- on line 18d.

Jodi receives three Forms 1099-R. One is for the initial conversion of \$100,000, and two are for the recharacterizations, showing distributions of \$120,000 and \$2,400. On Form 1040, line 15a, Jodi enters \$222,400, the total of the amounts on the three 1099s. She enters -0- on line 15b since there is no taxable amount.

Finally, Jodi attaches a statement to her Form 8606 explaining:

- The original conversion amount was \$100,000, and the amount recharacterized was \$120,000, of which \$20,000 was earnings.
- A basis of \$10,000 was restored on line 2 of Form 8606.
- A Roth IRA contribution was recharacterized to a traditional IRA, and the amount transferred was \$2,400, \$400 of which was earnings. She also indicates that no amount is deductible.

Example 2. On May 17, 1999, Beth (who is single) contributed \$2,000 to a Roth IRA. In March 2000, Beth determined that her 1999 modified AGI for Roth IRA purposes is \$36,000. Beth decides to recharacterize \$1,000 of the Roth IRA contribution as a contribution to a traditional IRA. At the time of the recharacterization, the \$2,000 contribution to the Roth IRA is worth \$2,300. Beth makes a trustee-to-trustee transfer of \$1,150 from the Roth IRA to a traditional IRA.

Completion of Form 8606. Beth is only required to complete lines 18b through 18d. She enters \$2,000 on line 18b, \$1,000 as a negative amount on line 18c, and \$1,000 on line 18d. Beth attaches a statement explaining that the total contribution recharacterized was \$1,150 and that \$1,000 is the original contribution and \$150 is earnings. The statement also indicates that \$1,000 of the original contribution is deductible on her 1999 Form 1040, line 23.

Example 3. On May 3, 1999, Ben (who is single) contributed \$2,000 to a traditional IRA. In March 2000, Ben determines that his 1999 modified AGI for Roth IRA purposes is \$38,500 and only \$500 of his \$2,000 contribution is deductible. Ben decides to recharacterize the remaining \$1,500 of the traditional IRA contribution to a Roth IRA. At the time of the recharacterization, the \$2,000 contribution to the traditional IRA is worth \$2,200. Ben makes a trustee-to-trustee transfer of \$1,650 from the traditional IRA to a Roth IRA.

Completion of Form 8606. Ben is only required to complete lines 18b through 18d. Ben enters -0- on line 18b, \$1,500 on line 18c, and \$1,500 on line 18d. Ben attaches a statement explaining that the total contribution

recharacterized was \$1,650, of which \$1,500 is the original contribution and \$150 is earnings. The statement also indicates that \$500 of the original contribution is deductible on his 1999 Form 1040A, line 15.

Amending Form 8606

After you file your return, you may change a nondeductible contribution to a traditional IRA to a deductible contribution or vice versa. You also may be able to make a recharacterization (see page 3). If necessary, complete a new Form 8606 showing the revised information and file it with **Form 1040X**, Amended U.S. Individual Income Tax Return.

Penalty for Not Filing

If you are required to file Form 8606 for 1999 but do not do so, you must pay a \$50 penalty, unless you can show reasonable cause.

Penalty for Overstatement

If you overstate your nondeductible contributions, you must pay a \$100 penalty, unless you can show reasonable cause.

What Records Must I Keep?

To verify the nontaxable part of distributions from your IRAs, including Roth IRAs and Ed IRAs, keep a copy of the following forms and records until all distributions are made from your IRAs:

- 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 8606 and any supporting statements and worksheets for all applicable years.
- Forms 5498 or similar statements you received each year showing contributions you made to a traditional IRA, Roth IRA, or Ed IRA.
- Forms 5498 or similar statements you received showing the value of your traditional IRAs and Ed IRAs for each year you received a distribution.
- Forms 1099-R or W-2P you received for each year you received a distribution.

Note: Forms 1040-T and W-2P are forms used in prior years.

Specific Instructions

Name and social security number (SSN). If you file a joint return on Form 1040 or 1040A, enter only the name and SSN of the spouse whose IRA information is being reported on Form 8606.

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

In Part I **only**, references to:

- Distributions from a traditional IRA include distributions from a SIMPLE IRA.
- Contributions to a traditional IRA **do not** include contributions to a SIMPLE IRA.

Line 1

If you used the **IRA Deduction Worksheet** in the Form 1040 or 1040A instructions, subtract line 10 of the worksheet (line 8 of the Form 1040A worksheet) (or the amount you chose to deduct on Form 1040, line 23, or Form 1040A, line 15, if less) from the **smaller** of line 8 or line 9 of the worksheet (line 6 or line 7 of the Form 1040A worksheet). Enter the result on line 1 of Form 8606. You cannot deduct the amount included on line 1.

If you used the **Worksheet for Reduced IRA Deduction** in Pub. 590, enter on line 1 of Form 8606 any nondeductible contributions from the appropriate lines of that worksheet.

If you did not have any deductible contributions, you may make nondeductible contributions up to your contribution limit (see page 3). Enter on line 1 of Form 8606 your nondeductible contributions.

Do not include on line 1 excess contributions that were returned to you with the related earnings (see the instructions for line 7).

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 that Form 8606
A year after 1988 and before 1993	The amount from line 14 of that Form 8606
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 1999 and 2000 and you have both deductible and nondeductible contributions for 1999, you may choose to treat the contributions made in 1999 first as nondeductible contributions and then as deductible contributions, or vice versa. But the amount on line 1 minus the amount on line 4 cannot be more than the contributions you actually made in 1999.

Example. You made contributions of \$1,000 in 1999 and \$1,000 in 2000, of which \$1,500 are deductible and \$500 are nondeductible. You choose \$500 of your contribution in 1999 to be nondeductible. The \$500 would be entered on line 1, but not line 4, and becomes part of your basis for 1999.

Although the contributions for 1999 that you made during January 1, 2000, through April 17, 2000, to traditional IRAs 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 1999.

Line 6

Enter the total value of **ALL** your traditional IRAs (including SEP IRAs) and SIMPLE IRAs as of December 31, 1999, **plus** any outstanding rollovers. You should receive a statement by January 31, 2000, showing the value of each IRA on December 31, 1999. However, if you recharacterized any amounts, enter on line 6 the total value taking into account all recharacterizations,

including amounts recharacterized after December 31, 1999.

For line 6, 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 1999 (from November 2 through December 31) that was rolled over to another traditional IRA after December 31, 1999, but within the 60-day rollover period.

Line 7

 *If you received a distribution in 1999 from a traditional IRA and you also made contributions for 1999 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 **Are Distributions Taxable?** in Chapter 1 of Pub. 590.*

Do not include any of the following amounts on line 7.

- Distributions from a traditional IRA in 1999 that you converted to a Roth IRA.
- Distributions you received from a traditional IRA in 1999 and rolled over to another traditional IRA by December 31, 1999.
- Outstanding rollovers included on line 6.
- Contributions you do not deduct that were returned to you with the related earnings by the due date of your return, including extensions. You must include the related earnings in income for the year in which you made the contribution.
- If your contributions to traditional IRAs for 1999 were \$2,000 or less, any portion of those contributions not allowable as a deduction (without regard to the modified adjusted gross income limitation), and that you did not deduct, that were returned to you after the due date of your return, including extensions.

Line 8

If you converted part or all of your traditional IRAs to Roth IRAs in 1999, complete lines 14a through 14c before completing line 8. Then enter

the total of lines 6, 7, and 14c on line 8.

Line 11

If you converted part or all of your traditional IRAs to Roth IRAs in 1999, multiply line 9 by line 14c and add the result to the amount on line 10. Then, subtract that total from line 5 and enter the result on line 11.

Part II—Conversions From Traditional IRAs to Roth IRAs

In Part II **only**, references to traditional IRAs include SIMPLE IRAs.

Limit on number of conversions.

If you converted an amount from a traditional IRA to a Roth IRA in **1998** or **1999** and then recharacterized the amount back to a traditional IRA, you may reconvert that amount only once in 1999. See Pub. 590 and Regulations section 1.408A.



You may not convert any amount from your traditional IRAs to Roth IRAs in 1999 if (a) your modified AGI for Roth IRA purposes (see page 2) is more than \$100,000 or (b) your filing status is married filing separately and you lived with your spouse at any time in 1999. If you erroneously made a conversion, you must recharacterize the converted amount (see page 3).

Line 15

If you completed line 9, multiply line 9 by line 14c and enter the result. Otherwise, enter the amount from line 2 (or the amount you would have entered on line 2 if you had completed Part I) plus any contributions included on line 1 that were made before the conversion.

Part III—Distributions From Roth IRAs

Complete Part III to figure the taxable part of your 1999 Roth IRA distributions. Distributions from Roth IRAs are applied in the following order.

1. Roth IRA contributions. These amounts represent a return of your basis and are not taxable. This amount is figured on line 18d. Complete the worksheet on this page to keep track of your basis in Roth IRA contributions.

Roth IRA Basis Worksheet (keep for your records)



You should complete this worksheet even if you are not required to complete Part III of Form 8606. You may need to know your basis to figure the nontaxable part of future distributions.

1	Basis in your Roth IRA contributions as of December 31, 1998. Enter the amount from Form 8606, line 18a, or see the instructions for that line for the amount to enter	1	_____
2	Did you receive any distributions from Roth IRAs in 1999? <input type="checkbox"/> Yes. Combine lines 18b and 18c of Form 8606 <input type="checkbox"/> No. Enter your Roth IRA contributions for 1999, adjusted for any recharacterizations.	2	_____
3	Add lines 1 and 2	3	_____
4	Enter the amount, if any, from Form 8606, line 17	4	_____
5	Basis in your Roth IRA contributions as of December 31, 1999. Subtract line 4 from line 3. If zero or less, enter -0-	5	_____
6	Basis in your Roth IRA conversions as of December 31, 1998. Enter the amount from Form 8606, line 23, or see the instructions for that line for the amount to enter	6	_____
7	Enter the amount, if any, from Form 8606, line 14c	7	_____
8	Add lines 6 and 7	8	_____
9	Enter the amount, if any, from Form 8606, line 21	9	_____
10	Enter the smaller of Form 8606, line 22 or line 25	10	_____
11	Add lines 9 and 10	11	_____
12	Basis in your Roth IRA conversions as of December 31, 1999. Subtract line 11 from line 8. If zero or less, enter -0-	12	_____

2. Accelerated income inclusion. If, in 1998, you converted amounts from a traditional IRA to a Roth IRA and are reporting the taxable amount over 4 years, the amount you must include in income for 1999 may be more than one-fourth of the taxable amount. The accelerated income is figured on line 21.

3. Amounts converted from traditional or SIMPLE IRAs to Roth IRAs. These amounts represent a return of basis and are not taxable. Complete the worksheet on this page to keep track of your basis in Roth IRA conversions.

4. Earnings. Any remaining amount is earnings, which are taxable because the distribution is not a qualified distribution (see page 2).

Line 17

Do not include on line 17 distributions that were rolled over to another Roth IRA within 60 days or distributions of excess contributions and related earnings.

Line 18a

If you did not make any Roth IRA distributions in 1998, enter the amount of your Roth IRA contributions for 1998, adjusted for

any recharacterizations. Otherwise, enter the excess, if any, of your Roth IRA contributions for 1998, adjusted for any recharacterizations, over the Roth IRA distributions you received in 1998. Include contributions for 1998 that you made in 1999.

If you completed Part III of Form 8606 for 1998, you can figure the excess of line 19c over line 18 to find your basis in Roth IRA contributions as of December 31, 1998. This amount can also be found on line 5 of your **Worksheet for Determining Roth IRA Basis Amounts** on page 6 of the 1998 Instructions for Form 8606.

Line 18b

Do not include on line 18b excess contributions that were returned to you.

Line 18c

Example of a contribution to a traditional IRA recharacterized to a Roth IRA. In July 1999, Ellen contributed \$2,000 to a traditional IRA. In March 2000, she recharacterized the contribution (which is now worth \$2,500) to a Roth IRA. Ellen enters -0- on line 18b and \$2,000 (not \$2,500) on line 18c.

Example of a contribution to a Roth IRA recharacterized to a traditional IRA. In May 1999, Steven contributed \$2,000 to a Roth IRA. In March 2000, he recharacterized the contribution (which is now worth \$2,500) to a traditional IRA. Steven enters \$2,000 on line 18b and \$2,000 as a negative amount (not \$2,500) on line 18c.

Line 20c

Enter on line 20c the 1999 taxable portion of the amount you converted from traditional IRAs to Roth IRAs in 1998. This is generally the same as the amount from your 1998 Form 8606, line 17. However, **do not** enter more than the excess of line 20a over line 20b.

If the owner of the Roth IRA died in 1999, the entire excess of line 20a over line 20b must generally be reported on line 20c and included in income. However, a surviving spouse may be able to elect to continue reporting the taxable income over 4 years. See **1998 Roth IRA Conversions** on page 1 and Pub. 590 for details.

Line 23

Enter the amount, if any, from line 14c of your 1998 Form 8606, reduced by the total of:

- The amount, if any, on your 1998 Form 8606, line 22, plus
- The **smaller** of line 23 or line 24 of your 1998 Form 8606.

This amount can also be found on line 11 of your **Worksheet for Determining Roth IRA Basis Amounts** on page 6 of the 1998 Instructions for Form 8606.

Additional 10% Tax

There is generally an additional 10% tax on distributions from a Roth IRA that are shown on line 19. The additional tax is figured in Part I of Form 5329.

Part IV—Distributions From Education (Ed) IRAs



If the total Ed IRA contributions made for 1999 on behalf of the beneficiary are more than \$500 (or more than the total amount allowed to be contributed by all contributors to the account, if less), the excess contributions (plus related earnings) must be distributed by the

Ed IRA Worksheet (keep for your records)

If line 28 is more than line 29 on Form 8606, use this worksheet to figure the amount of taxable distributions you received from Ed IRAs in 1999. Also use this worksheet to figure your year-end basis in each Ed IRA.



You should complete this worksheet to figure your basis, even if you are not required to complete it. You may need to know your basis to figure the nontaxable part of future distributions.

Complete lines 1 through 17 separately for each of your Ed IRAs.

1	Enter the amount contributed to this Ed IRA in 1999	1	_____
2	Enter your basis in this Ed IRA as of December 31, 1998. See instructions	2	_____
3	Add lines 1 and 2	3	_____
4	Did you receive any distributions in 1999 from this Ed IRA? <input type="checkbox"/> Yes. Go to line 5. <input type="checkbox"/> No. Enter the amount from line 3 on line 17 and do not complete the rest of this worksheet for this Ed IRA.		
5	Enter the total amount of all distributions you received from this Ed IRA in 1999. Do not include rollovers	5	_____
6	Enter the amount of qualified higher education expenses from Form 8606, line 29, attributable to distributions from this Ed IRA	6	_____
7	Subtract line 6 from line 5	7	_____
8	Enter the total value of this Ed IRA as of December 31, 1999, plus any outstanding rollovers. See instructions	8	_____
9	Add lines 5 and 8	9	_____
10	Divide line 3 by line 9 and enter the result as a decimal (rounded to at least 3 places). Do not enter more than "1.000"	10	_____
11	Multiply line 5 by line 10. This is the nontaxable portion of your distributions from this Ed IRA <i>Note: If line 7 is zero, skip lines 12 through 15, enter -0- on line 16, and go to line 17.</i>	11	_____
12	Subtract line 11 from line 5	12	_____
13	Did you check Yes on line 29 of the form? <input type="checkbox"/> Yes. Enter the amount from line 12 on line 16 and go to line 17. <input type="checkbox"/> No. Go to line 14.		
14	Divide line 6 by line 5 and enter the result as a decimal (rounded to at least 3 places). Do not enter more than "1.000"	14	_____
15	Multiply line 12 by line 14	15	_____
16	Subtract line 15 from line 12. This is the amount of taxable distributions you received from this Ed IRA in 1999 . Enter the result here and include it on line 30 of Form 8606	16	_____
17	Subtract line 11 from line 3. This is your basis in this Ed IRA as of December 31, 1999	17	_____

due date (including extensions) of the beneficiary's return (or by April 17, 2000, if the beneficiary is not required to file a return). Otherwise, the beneficiary is subject to the excess contributions penalty. See Pub. 590 and Form 5329 for details, including how to figure the penalty.

If the beneficiary reaches age 30 or dies, the account balance must generally be distributed to the beneficiary (or to the estate of the beneficiary) within 30 days. However, any balance in an Ed IRA can generally be rolled over to an Ed IRA of a family member under age 30. (The same result may generally be accomplished by changing the beneficiary of the existing Ed IRA.) If a rollover is made from one family member's Ed IRA to another's, attach a statement to the Form 8606 of the beneficiary of the Ed IRA from which the rollover was made. Indicate on

Line 28

Enter the total Ed IRA distributions (withdrawals) received in 1999. Do not include amounts rolled over within 60 days. Only one rollover is allowed during any 12-month period.

the statement the amount and date of the rollover, and the name and SSN of the family member to whose Ed IRA the rollover was contributed. See Pub. 590 for details.

Line 29

Qualified higher education expenses are generally tuition, fees, books, supplies, and equipment required for the attendance of the beneficiary at an eligible educational institution. Education expenses also include the cost of room and board while attending the educational institution, if the student is attending at least half-time. See Pub. 590 for details.

The education credits may not be claimed for a student's expenses in the same tax year in which the student takes a tax-free withdrawal from an Ed IRA. To allow the education credits to be claimed for the student's expenses, check "Yes" on line 29. This indicates you are waiving any exclusion of a distribution from an Ed IRA.

Note: *No deduction or credit (e.g., a business expense deduction for education expenses on Schedule C or C-EZ (Form 1040) or miscellaneous itemized deduction on Schedule A (Form 1040)) is allowed for any qualified education expenses to the extent the expenses are used in determining the exclusion for an Ed IRA distribution.*

Line 30

Instructions for Ed IRA Worksheet

Line 2. Your basis in each Ed IRA as of December 31, 1998, is the total of all contributions to the Ed IRA in

1998, less the nontaxable portion of any distributions you received in 1998. This amount can also be found on line 15 of your **Ed IRA**

Worksheet—Distributions and Bases for this Ed IRA, on page 7 of the 1998 Instructions for Form 8606.

Line 8. Enter the total value of this Ed IRA as of December 31, 1999, plus any outstanding rollovers. You should receive a statement by January 31, 2000, for each Ed IRA showing the value on December 31, 1999.

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 from one Ed IRA within 60 days before the end of 1999 (November 2 through December 31) that was rolled over to another Ed IRA after December 31, 1999, but within the 60-day rollover period.

Additional 10% Tax

If you have a taxable amount on line 30, you may be subject to an additional 10% tax. The tax is figured on Form 5329.

Exceptions. The additional tax does not apply to distributions that are:

- Taxable solely because you checked "Yes" on line 29,
- Due to the death or disability of the beneficiary, or
- Made on account of a scholarship, allowance, or payment described in section 25A(g)(2).

See the Instructions for Form 5329 for details.

Paperwork Reduction Act Notice.

We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

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.; **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.