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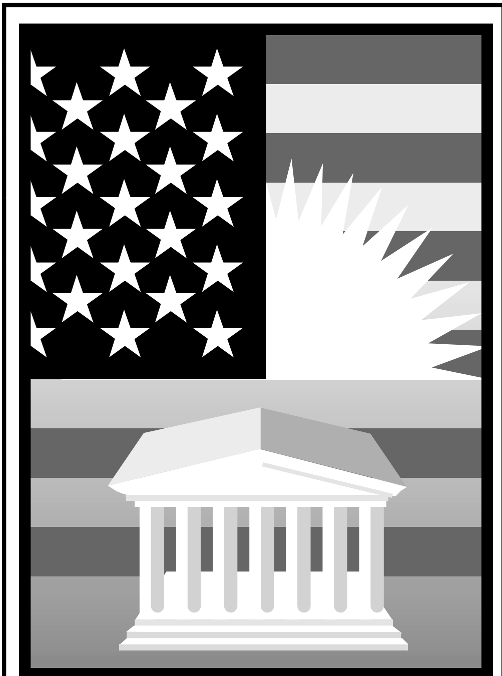
Individual Retirement Arrangements (IRAs)

(Including Roth IRAs and Education IRAs)

For use in preparing

1999 Returns



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Important Changes

Modified AGI limit increased. For 1999, if you are covered by a retirement plan at work, your deduction for contributions to a traditional IRA will not be reduced (phased out) unless your modified adjusted gross income (AGI) is between:

- $51,000 and $61,000 for a married couple or a qualifying widow(er) filing a joint return,
- $31,000 and $41,000 for a single individual or head of household, or
- $–0– (no increase) and $10,000 for a married individual filing a separate return.

See *How Much Can I Deduct?* in chapter 1.

Photographs of missing children. The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling **1–800–THE–LOST (1–800–843–5678)** if you recognize a child.

Important Reminders

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

Interest earned. Although interest earned from your IRA is generally not taxed in the year earned, it is ***not tax-exempt*** interest. ***Do not*** report this interest on your return as tax-exempt interest.

Penalty for failure to file Form 8606. If you make nondeductible contributions to a traditional IRA and you do not file Form 8606, *Nondeductible IRAs,* with your tax return, you may have to pay a $50 penalty.

Contributions to spousal IRAs. In the case of a married couple filing a joint return, up to $2,000 can be contributed to IRAs (other than SIMPLE and education IRAs) on behalf of each spouse, even if one spouse has little or no compensation. This means that the total combined contributions that can be made on behalf of a married couple can be as much as $4,000 for the year. See *Spousal IRA limit* under *How Much Can Be Contributed?* in chapter 1. Employer contributions under a SEP plan are not counted when figuring the limits just discussed.

Spouse covered by employer plan. If you are not covered by an employer retirement plan and you file a joint return, you may be able to deduct all of your contributions to a traditional IRA even if your spouse is covered by a plan. In this case, your deduction is limited to $2,000 and must be reduced if your modified adjusted gross income (AGI) on a joint return is more than $150,000. You cannot deduct any of your contributions if the modified AGI on your joint return is $160,000 or more.

See *How Much Can I Deduct?* in chapter 1.

No additional tax on early withdrawals for higher education expenses. You can take distributions from your traditional IRA for qualified higher education expenses without having to pay the 10% additional tax on early withdrawals.

For more information, see *Higher education expenses* under *Age 59½ Rule* in chapter 1.

No additional tax on early withdrawals for first home. You can take distributions of up to $10,000 from your traditional or Roth IRA to buy, build, or rebuild a first home without having to pay the 10% additional tax on early withdrawals.

For traditional IRAs, see *First home,* under *Age 59½ Rule* in chapter 1. For Roth IRAs, see *What Are Qualified Distributions?* in chapter 2.

Roth IRA. You may be able to establish and contribute to a nondeductible tax-free individual retirement arrangement (a plan) called a Roth IRA. You cannot claim a deduction for any contributions to a Roth IRA. But, if you satisfy the requirements, all earnings are tax free and neither your nondeductible contributions nor any earnings on them are taxable when you withdraw them. See chapter 2.

Education IRA. You may be able to make nondeductible contributions of up to $500 annually to an education IRA for a child under age 18. Earnings in the IRA accumulate free of income tax. See chapter 3.

Introduction

An individual retirement arrangement (IRA) is a personal savings plan that offers you tax advantages to set aside money for your retirement or, in some plans, for certain education expenses. Two advantages of an IRA are:

1) You may be able to deduct your contributions in whole or in part, depending on the type of IRA and your circumstances, and
2) Generally, amounts in your IRA, including earnings and gains, are not taxed until distributed, or, in some cases, are not taxed at all if distributed according to the rules.

Chapter 1 discusses the rules for traditional IRAs (those that are not Roth, SIMPLE, or education IRAs). Chapter 2 discusses the Roth IRA, which features nondeductible contributions and tax-free withdrawals. Chapter 3 discusses the education IRA, which can be set up to finance higher education expenses. Chapter 4 discusses simplified employee pensions (SEPs), under which IRAs can be set up to receive contributions from employers under SEP plans. Chapter 5 discusses SIMPLE IRAs, which are IRAs set up to receive employer contributions under a savings incentive match plan for employees (SIMPLE).

This publication explains the rules for setting up an IRA, contributing to it, transferring money or property to and from it, and making withdrawals from it. Penalties for breaking the rules are also explained. Worksheets, sample forms, and tables, listed under *Appendices* in the contents, are included to help you comply with the rules. These appendices are at the back of this publication.

Useful Items

You may want to see:

Publications

- ☐ **560** Retirement Plans for Small Business (Including SEP, SIMPLE, and Keogh Plans)
- ☐ **571** Tax-Sheltered Annuity Programs for Employees of Public Schools and Certain Tax-Exempt Organizations
- ☐ **575** Pension and Annuity Income
- ☐ **939** General Rule for Pensions and Annuities

Forms (and instructions)

- ☐ **W–4P** Withholding Certificate for Pension or Annuity Payments
- ☐ **1099–R** Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
- ☐ **5304–SIMPLE** Savings Incentive Match Plan for Employees of Small Employers (SIMPLE) (Not Subject to the Designated Financial Institution Rules)
- ☐ **5305–SEP** Simplified Employee Pension-Individual Retirement Accounts Contribution Agreement
- ☐ **5305A–SEP** Salary Reduction and Other Elective Simplified Employee Pension–Individual Retirement Accounts Contribution Agreement
- ☐ **5305–S** SIMPLE Individual Retirement Trust Account
- ☐ **5305–SA** SIMPLE Individual Retirement Custodial Account
- ☐ **5305–SIMPLE** Savings Incentive Match Plan for Employees of Small Employers (SIMPLE)
- ☐ **5329** Additional Taxes Attributable to IRAs, Other Qualified Retirement Plans, Annuities, Modified Endowment Contracts, and MSAs
- ☐ **5498** IRA Contribution Information
- ☐ **8606** Nondeductible IRAs
- ☐ **8815** Exclusion of Interest From Series EE and I U.S. Savings Bonds Issued After 1989 (For Filers With Qualified Higher Education Expenses)
- ☐ **8839** Qualified Adoption Expenses

See chapter 6 for information about getting these publications and forms.

1. Traditional IRAs

This chapter discusses the original IRA. In this publication the original IRA (sometimes called an ordinary or regular IRA) is referred to as the “traditional IRA.” Two advantages of a traditional IRA are that you may be able to deduct some or all of your contributions to it, depending on your circumstances, and, generally, amounts in your IRA, including earnings and gains, are not taxed until they are distributed.

What Is a Traditional IRA?

A traditional IRA is any IRA that is not a Roth IRA, a SIMPLE IRA, or an education IRA.

Who Can Set Up a Traditional IRA?

You can set up and make contributions to a traditional IRA if you (or, if you file a joint return, your spouse) received taxable ***compensation*** during the year and you were not age 70½ by the end of the year.

You can have a traditional IRA whether or not you covered by any other retirement plan. However, you may not be able to deduct all of the contributions if you or your spouse are covered by an employer retirement plan. See *How Much Can I Deduct?* later.

What Is Compensation?

As stated earlier, to set up and contribute to a traditional IRA, you or your spouse must have received taxable compensation. This rule applies to both deductible and nondeductible contributions. Generally, what you earn from working is compensation.

Compensation includes the items discussed next.

Wages, salaries, etc. Wages, salaries, tips, professional fees, bonuses, and other amounts you receive for providing personal services are compensation. The IRS treats as compensation any amount properly shown in box 1 (*Wages, tips, other compensation*) of Form W–2, *Wage and Tax Statement,* provided that amount is reduced by any amount properly shown in box 11 (*Nonqualified plans*). Scholarship and fellowship payments are compensation for this purpose only if shown in box 1 of Form W–2.

Commissions. An amount you receive that is a percentage of profits or sales price is compensation.

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

Compensation includes earnings from self-employment even if they are not subject to self-employment tax because of your religious beliefs. See Publication 533, *Self-Employment Tax,* for more information.

When you have both self-employment income and salaries and wages, your compensation includes both amounts.

Self-employment loss. If you have a net loss from self-employment, do not subtract the loss from your salaries or wages when figuring your total compensation.

Alimony and separate maintenance. Treat as compensation any taxable alimony and separate maintenance payments you receive under a decree of divorce or separate maintenance.

What Is Not Compensation?

Compensation does ***not*** include any of the following items.

- Earnings and profits from property, such as rental income, interest income, and dividend income.
- Pension or annuity income.
- Deferred compensation received (compensation payments postponed from a past year).
- Income from a partnership for which you do not provide services that are a material income-producing factor.
- Any amounts you exclude from income, such as foreign earned income and housing costs.

When and How Can a Traditional IRA Be Set Up?

You can set up a traditional IRA at any time. However, the time for making contributions for any year is limited. See *When Can I Make Contributions?,* later.

You can set up different kinds of IRAs with a variety of organizations. You can set up an IRA at a bank or other financial institution or with a mutual fund or life insurance company. You can also set up an IRA through your stockbroker. Any IRA must meet Internal Revenue Code requirements. The requirements for the various arrangements are discussed below.

Kinds of traditional IRAs. Your traditional IRA can be an individual retirement account or annuity. It can be part of either a simplified employee pension (SEP) or a part of an employer or employee association trust account.

Individual Retirement Account

An individual retirement account is a trust or custodial account set up in the United States for the exclusive benefit of you or your beneficiaries. The account is created by a written document. The document must show that the account meets all of the following requirements.

1) The trustee or custodian must be a bank, a federally insured credit union, a savings and loan association, or an entity approved by the IRS to act as trustee or custodian.
2) The trustee or custodian generally cannot accept contributions of more than $2,000 a year. However, rollover contributions and employer contributions to a simplified employee pension (SEP), as explained in chapter 4, can be more than $2,000.
3) Contributions, except for rollover contributions, must be in cash. See *Rollovers,* later.
4) The amount in your account must be fully vested (you must have a nonforfeitable right to the amount) at all times.
5) Money in your account cannot be used to buy a life insurance policy.
6) Assets in your account cannot be combined with other property, except in a common trust fund or common investment fund.
7) You must start receiving distributions by April 1 of the year following the year in which you reach age 70½. See *When Must I Withdraw IRA Assets? (Required Distributions),* later.

Individual Retirement Annuity

You can set up an individual retirement annuity by purchasing an annuity contract or an endowment contract from a life insurance company.

An individual retirement annuity must be issued in your name as the owner, and either you or your beneficiaries who survive you are the only ones who can receive the benefits or payments.

An individual retirement annuity must meet all the following requirements.

1) Your entire interest in the contract must be nonforfeitable.
2) The contract must provide that you cannot transfer any portion of it to any person other than the issuer.
3) There must be flexible premiums so that if your compensation changes, your payment can also change. This provision applies to contracts issued after November 6, 1978.
4) The contract must provide that contributions cannot be more than $2,000 in any year, and that you must use any refunded premiums to pay for future premiums or to buy more benefits before the end of the calendar year after the year you receive the refund.
5) Distributions must begin by April 1 of the year following the year in which you reach age 70½. See

When Must I Withdraw IRA Assets? (Required Distributions), later.

Individual Retirement Bonds

The sale of individual retirement bonds issued by the Federal government was suspended after April 30, 1982. The bonds have the following features.

1) You are paid interest on them only when you cash them in.
2) You are not paid any further interest after you reach age 70½. If you die, interest will stop 5 years after your death, or on the date you would have reached age 70½, whichever is earlier.
3) You cannot transfer the bonds.

If you cash (redeem) the bonds before the year in which you reach age 59½, you may be subject to a 10% additional tax. See *Premature Distributions (Early Withdrawals),* later. You can roll over redemption proceeds into IRAs.

Employer and Employee Association Trust Accounts

Your employer, labor union, or other employee association can set up a trust to provide individual retirement accounts for its employees or members. The requirements for individual retirement accounts apply to these employer or union-established traditional IRAs.

Simplified Employee Pension (SEP)

A simplified employee pension (SEP) is a written arrangement that allows your employer to make deductible contributions to a traditional IRA (a SEP-IRA) set up for you to receive such contributions. See chapter 4 for more information.

Inherited IRAs

If you inherit a traditional IRA, that IRA becomes subject to special rules.

A traditional IRA is included in the estate of the decedent who owned it.

Unless you are the decedent's surviving spouse, you cannot treat an inherited traditional IRA as your own. This means that unless you are the surviving spouse, contributions (including rollover contributions) cannot be made to the IRA and you cannot roll it over. But, like the original owner, you generally will not owe tax on the assets in the IRA until you receive distributions from it.

If you are a surviving spouse, you can elect to treat a traditional IRA inherited from your spouse as your own. You will be treated as having made this election if:

- Contributions (including rollover contributions) are made to the inherited IRA, or
- Required distributions are not made from it.

For more information, see the discussions of inherited IRAs later in this chapter under *Rollovers,* under *Beneficiaries,* and under *Are Distributions Taxable?*.

Required Disclosures

The trustee or issuer (sometimes called the sponsor) of the traditional IRA generally must give you a disclosure statement at least 7 days before you set up your IRA. However, the sponsor does not have to give you the statement until the date you set up (or purchase, if earlier) your IRA, provided you are given at least 7 days from that date to revoke the IRA.

If you revoke your IRA within the revocation period, the sponsor must return to you the entire amount you paid. The sponsor must report on the appropriate IRS forms both your contribution to the IRA (unless by a trustee-to-trustee transfer) and the distribution to you upon your revocation of the IRA. These requirements apply to all sponsors.

Generally, the sponsor is the bank that is the trustee of the account or the insurance company that issued the annuity contract.

Disclosure statement. The disclosure statement given to you by the plan sponsor must explain certain items in plain language. For example, the statement should explain when and how you can revoke the IRA, and include the name, address, and telephone number of the person to receive the notice of cancellation. This explanation must appear at the beginning of the disclosure statement.

How Much Can Be Contributed?

As soon as you set up your traditional IRA, contributions can be made to it through your chosen sponsor (trustee or other administrator). ***Contributions must be in the form of money*** (cash, check or money order). Property cannot be contributed. However, you may be able to transfer or roll over certain property from one retirement plan to another. See the discussion of rollovers and other transfers later in this chapter.

Contributions can be made to your traditional IRA for each year that you have received compensation and have not reached age 70½ during the year. For any year in which you do not work, contributions cannot be made to your IRA unless you receive alimony or file a joint return with a spouse who has compensation. See *Who Can Set Up a Traditional IRA?,* earlier. Even if contributions can not be made for the current year, the amounts contributed for years in which you did qualify can remain in your IRA. Contributions can resume for any years that you qualify.

Limits and Other Rules

There are limits and other rules that affect the amount that can be contributed. These limits and rules are explained below.

General limit. The most that can be contributed for any year to your traditional IRA is ***the smaller of*** the following amounts:

- Your compensation (defined earlier) that you must include in income for the year, or
- $2,000.

Note. This limit is reduced by any contributions to a section 501(c)(18) plan (generally, a pension plan created before June 25, 1959, that is funded entirely by employee contributions).

This is the most that can be contributed regardless of whether the contributions are to one or more traditional IRAs or whether all or part of the contributions are nondeductible (see *Nondeductible Contributions*, later).

Contributions on your behalf to a traditional IRA reduce your limit for contributions to a Roth IRA (see chapter 2).

Examples. George, who is single, earns $24,000 in 1999. His IRA contributions for 1999 are limited to $2,000.

Danny, a college student working part time, earns $1,500 in 1999. His IRA contributions for 1999 are limited to $1,500, the amount of his compensation.

Spousal IRA limit. If you file a joint return and your taxable compensation is less than that of your spouse, the most that can be contributed for the year to your IRA is the smaller of the following two amounts:

1) $2,000, or
2) The total compensation includable in the gross income of both you and your spouse for the year, reduced by the following two amounts.
   a) Your spouse's IRA contribution for the year.
   b) Any contributions for the year to a Roth IRA on behalf of your spouse.

This means that the total combined contributions that can be made for the year to your IRA and your spouse's IRA can be as much as $4,000.

Note. This traditional IRA limit is reduced by any contributions to a section 501(c)(18) plan (generally, a pension plan created before June 25, 1959, that is funded entirely by employee contributions).

Contributions to traditional IRAs reduce the limit for contributions to Roth IRAs (see chapter 2).

Example. Christine, a full-time student with no taxable compensation, marries Jeremy during the year. For the year, Jeremy has taxable compensation of $30,000. He plans to contribute (and deduct) $2,000 to a traditional IRA. If he and Christine file a joint return, each can contribute $2,000 for the year to a traditional IRA. This is because Christine, who has no compensation, can add Jeremy's compensation, reduced by the amount of his IRA contribution, ($30,000 – $2,000 = $28,000) to her own compensation (–0–) to figure her maximum contribution to a traditional IRA. In her case, $2,000 is her contribution limit, because $2,000 is less than $28,000 (her compensation for purposes of figuring her contribution limit).

Age 70½ rule. Contributions cannot be made to your traditional IRA for the year you reach age 70½ or any later year.

Community property laws. Except as just discussed under *Spousal IRA limit,* each spouse figures his or her limit separately, using his or her own compensation. This is the rule even in states with community property laws.

Filing status. Generally, except as discussed earlier under *Spousal IRA limit,* your filing status has no effect on the amount of allowable contributions to your traditional IRA. However, if during the year either you or your spouse was covered by a retirement plan at work, your deduction may be reduced or eliminated, depending on your filing status and income. See *How Much Can I Deduct?,* later.

Example. Tom and Rosa are married and both are under age 70½. They both work and each has a traditional IRA. Tom earned $1,800 and Rosa earned $48,000 in 1999. Even though Tom earned less than $2,000, they can contribute up to $2,000 to his IRA for the year, under the spousal IRA limit rule, if they file a joint return. They can contribute up to $2,000 to Rosa's IRA. If they file separate returns, the amount that can be contributed to Tom's IRA is limited to $1,800.

Contributions not required. You do not have to contribute to your traditional IRA for every tax year, even if you can.

Less than maximum contributions. If contributions to your traditional IRA for a year were less than the limit, you cannot contribute more in a later year to make up the difference.

Example. Justin earns $30,000 in 1999. Although he can contribute up to $2,000 for 1999, he contributes only $1,000. Justin cannot make up the $1,000 ($2,000 − $1,000) difference between his actual contributions for 1999 and his 1999 limit by contributing $1,000 more than the limit in 2000 or any later year.

More than maximum contributions. If contributions to your IRA for a year were more than the limit, you can apply the excess contribution in one year to a later year if the contributions for that later year are less than the maximum allowed for that year. See *Excess Contributions,* later.

More than one IRA. If you have more than one IRA, the limit applies to the total contributions made on your behalf to all your traditional IRAs for the year.

The limit for contributions to Roth IRAs (see chapter 2) is reduced by contributions made on your behalf to your traditional IRAs.

Both spouses have compensation. If both you and your spouse have compensation and are under age 70½, each of you can set up an IRA. You cannot both participate in the same IRA.

Inherited IRAs. If you inherit a traditional IRA from your spouse, you can choose to treat it as your own by making contributions to it. See *Inherited IRAs,* earlier.

If, however, you inherit a traditional IRA and you are not the decedent's spouse, you cannot contribute to that IRA, because you cannot treat it as your own.

Annuity or endowment contracts. If you invest in an annuity or endowment contract under an individual retirement annuity, no more than $2,000 can be contributed toward its cost for the tax year, including the cost of life insurance coverage. If more than $2,000 is contributed, the annuity or endowment contract is disqualified.

Brokers' commissions. Brokers' commissions paid in connection with your traditional IRA ***are subject to*** the contribution limit and ***are not deductible*** as a miscellaneous deduction on Schedule A (Form 1040).

Trustees' fees. Trustees' administrative fees ***are not subject to*** the contribution limit. A trustee's administrative fees that are billed separately and paid in connection with your traditional IRA ***are deductible.*** They are deductible (if they are ordinary and necessary) as a miscellaneous deduction on Schedule A (Form 1040). The deduction is subject to the 2%-of-adjusted-gross-income limit.

When Can Contributions Be Made?

Contributions can be made to your traditional IRA for a year at any time during the year or by the due date for filing your return for that year, ***not*** including extensions. For most people, this means that contributions for 1999 must be made by April 17, 2000.

Designating year for which contribution is made. If an amount is contributed to your traditional IRA between January 1 and April 17, you should tell the sponsor which year (the current year or the previous year) the contribution is for. If you do not tell the sponsor which year it is for, the sponsor can assume, for reporting to the IRS, that the contribution is for the current year (the year the sponsor received it).

Filing before a contribution is made. You can file your return claiming a traditional IRA contribution before the contribution is actually made. However, the contribution must be made by the due date of your return, ***not*** including extensions.

How Much Can I Deduct?

Generally, you can deduct the lesser of the contributions to your traditional IRA for the year or the general limit (or spousal IRA limit, if applicable). However, ***if you or your spouse were covered by an employer retirement plan*** at any time during the year for which contributions were made, you may not be able to deduct all of the contributions. Your deduction may be reduced or eliminated, depending on the amount of your income and your filing status, as discussed later under *Deduction Limits.* Any limit on the amount you can deduct does not affect the amount that can be contributed. See *Nondeductible Contributions,* later.

Are You Covered by an Employer Plan?

The Form W–2 you receive from your employer has a box used to indicate whether you were covered for the year. The “Pension Plan” box should have a mark in it if you were covered.

If you are not certain whether you were covered by your employer's retirement plan, you should ask your employer.

Employer plans. An employer retirement plan is one that an employer sets up for the benefit of its employees. For purposes of the traditional IRA deduction rules, an employer retirement plan is any of the following plans.

- A qualified pension, profit-sharing, stock bonus, money purchase pension, etc., plan (including Keogh plans).
- A 401(k) plan (generally an arrangement included in a profit-sharing or stock bonus plan that allows you to choose to either take part of your compensation from your employer in cash or have your employer pay it into the plan).
- A union plan (a qualified stock bonus, pension, or profit-sharing plan created by a collective bargaining agreement).
- A qualified annuity plan.
- A plan established for its employees by the United States, a state or political subdivision thereof, or by an agency or instrumentality of any of the foregoing (other than an eligible state deferred compensation plan (section 457(b) plan)).
- A tax-sheltered annuity plan for employees of public schools and certain tax-exempt organizations (403(b) plan).
- A simplified employee pension (SEP) plan.
- A 501(c)(18) trust (a certain type of tax-exempt trust created before June 25, 1959, that is funded only by employee contributions) if you made deductible contributions during the year.
- A SIMPLE plan.

A ***qualified plan*** is one that meets the requirements of the Internal Revenue Code.

When Are You Covered?

Special rules apply to determine whether you are considered covered by a plan for a tax year. These rules differ depending on whether the plan is a defined contribution plan or a defined benefit plan.

Table 1.1 **Can I Take a Traditional IRA Deduction?** This chart sums up whether you can take a full deduction, a partial deduction, or no deduction, as discussed in this chapter.

If your Modified AGI* is:		If You Are Covered by a Retirement Plan at Work and Your Filing Status is:			If You Are Not Covered by a Retirement Plan at Work and Your Filing Status is:			
At Least	But Less Than	• **Single** • **Head of Household** You Can Take	• **Married Filing Jointly** (even if your spouse is not covered by a plan at work) • **Qualifying Widow(er)** You Can Take	**Married Filing Separately**** You Can Take	**Married Filing Jointly** (and your spouse is covered by a plan at work) You Can Take	• **Single** • **Head of Household** You Can Take	• **Married Filing Jointly or Separately** (and spouse is not covered by a plan at work) • **Qualifying Widow(er)** You Can Take	**Married Filing Separately** (and your spouse is covered by a plan at work)*** You Can Take
$0.01	$10,000.00	Full deduction	Full deduction	Partial deduction	Full deduction	Full Deduction	Full Deduction	Partial deduction
$10,000.00	$31,000.00	Full deduction	Full deduction	No deduction	Full deduction			No deduction
$31,000.00	$41,000.00	Partial deduction	Full deduction	No deduction	Full deduction			No deduction
$41,000.00	$51,000.00	No deduction	Full deduction	No deduction	Full deduction			No deduction
$51,000.00	$61,000.00	No deduction	Partial deduction	No deduction	Full deduction			No deduction
$61,000.00	$150,000.00	No deduction	No deduction	No deduction	Full deduction			No deduction
$150,000.00	$160,000.00	No deduction	No deduction	No deduction	Partial deduction			No deduction
$160,000.00	or over	No deduction	No deduction	No deduction	No deduction			No deduction

***Modified AGI** (adjusted gross income). For Form 1040A, it is the amount on line 14 increased by any excluded qualified bond interest shown on Form 8815, *Exclusion of Interest from Series EE and I U.S. Savings Bonds Issued after 1989,* and certain tax-exempt income amounts. (See *Modified adjusted gross income,* later.) For Form 1040, it is the amount on line 33, figured without taking into account any IRA deduction or any foreign earned income exclusion and foreign housing exclusion (deduction), any student loan interest deduction, any qualified bond interest exclusion from Form 8815, and certain tax-exempt income amounts. (See *Modified adjusted gross income,* later.)

**If you did not live with your spouse at any time during the year, your filing status is considered, for this purpose, as Single (therefore your IRA deduction is determined under the "Single" column).

***You are entitled to the full deduction if you did not live with your spouse at any time during the year.

Defined contribution plan. A defined contribution plan is a plan that provides for a separate account for each person covered by the plan. In a defined contribution plan, the amount to be contributed to each participant's account is spelled out in the plan. The level of benefits actually provided to a participant depends on the total amount contributed to that participant's account and any earnings on those contributions. Types of defined contribution plans include profit-sharing plans, stock bonus plans, and money purchase pension plans.

Generally, you are considered covered by a defined contribution plan if amounts are contributed or allocated to your account for the plan year that ends within your tax year.

Example. Company A has a money purchase pension plan. Its plan year is from July 1 to June 30. The plan provides that contributions must be allocated as of June 30. Bob, an employee, leaves Company A on December 30, 1998. The contribution for the plan year ending on June 30, 1999, is not made until February 15, 2000 (when Company A files its corporate income tax return). In this case, Bob is considered covered by the plan for his 1999 tax year.

No vested interest. If an amount is allocated to your account for a plan year, you are covered by that plan even if you have no vested interest in (legal right to) the account.

Defined benefit plan. A defined benefit plan is any plan that is not a defined contribution plan. In a defined benefit plan, the level of benefits to be provided to each participant is spelled out in the plan. The plan administrator figures the amount needed to provide those benefits and those amounts are contributed to the plan. Defined benefit plans include pension plans and annuity plans.

If you are eligible (meet minimum age and years of service requirements) to participate in your employer's defined benefit plan for the plan year that ends within your tax year, you are considered covered by the plan. This rule applies even if you declined to be covered by the plan, you did not make a required contribution, or you did not perform the minimum service required to accrue a benefit for the year.

Example. Nick, an employee of Company B, is eligible for coverage under Company B's defined benefit plan with a July 1 to June 30 plan year. Nick leaves Company B on December 30, 1998. Since Nick is eligible for coverage under the plan for its year ending June 30, 1999, he is considered covered by the plan for his 1999 tax year.

No vested interest. If you accrue a benefit for a plan year, you are covered by that plan even if you have no vested interest in (legal right to) the accrual.

Judges. For purposes of figuring the IRA deduction, federal judges are considered covered by an employer retirement plan.

When Are You Not Covered?

You are not covered by an employer plan in the following situations.

Social security or railroad retirement. Coverage under social security or railroad retirement (Tier I and Tier II) does not count as coverage under an employer retirement plan.

Benefits from previous employer's plan. If you receive retirement benefits from a previous employer's plan and you are not covered under another employer plan, you are not considered covered by a plan.

Reservists. If the only reason you participate in a plan is because you are a member of a reserve unit of the armed forces, you may not be considered covered by the plan. You are not considered covered by the plan if ***both*** of the following conditions are met.

1) The plan you participate in is established for its employees by:
   a) The United States,
   b) A state or political subdivision of a state, or
   c) An instrumentality of either (a) or (b) above.
2) You did not serve more than 90 days on active duty during the year (not counting duty for training).

Volunteer firefighters. If the only reason you participate in a plan is because you are a volunteer firefighter, you may not be considered covered by the plan. You are not considered covered by the plan if ***both*** of the following conditions are met.

1) The plan you participate in is established for its employees by:
   a) The United States,
   b) A state or political subdivision of a state, or
   c) An instrumentality of either (a) or (b) above.
2) Your accrued retirement benefits at the beginning of the year will not provide more than $1,800 per year at retirement.

Social Security Recipients

Complete the worksheets in *Appendix B* of this publication if, for the year, ***all*** of the following apply.

- You received social security benefits.
- You received taxable compensation.
- Contributions were made to your traditional IRA.
- You or your spouse was covered by an employer retirement plan.

Use these worksheets to figure your IRA deduction and the taxable portion, if any, of your social security benefits. *Appendix B* includes an example with filled-in worksheets to assist you.

Deduction Limits

As discussed under *How Much Can I Deduct?,* earlier, the deduction you can take for contributions made to your traditional IRA depends on whether you or your spouse were covered for any part of the year by an employer retirement plan. Your deduction is also affected by how much income you had and by your filing status, as explained later under *Reduced or no deduction*.

Full deduction. If neither you nor your spouse were covered for any part of the year by an employer retirement plan, you can take a deduction for your total contributions to one or more traditional IRAs of up to $2,000, or 100% of your compensation, whichever is less. This limit is reduced by any contributions made to a 501(c)(18) plan on your behalf.

Spousal IRA. In the case of a married couple with unequal compensation who file a joint return, the deduction for contributions to the traditional IRA of the spouse with less compensation is limited to the ***smaller*** of the following two amounts:

1) $2,000, or
2) The total compensation includible in the gross income of both you and your spouse for the year reduced by the following two amounts.
   a) Your spouse's IRA deduction for the year.
   b) Any contributions for the year to a Roth IRA on behalf of your spouse.

This limit is reduced by any contributions to a section 501(c)(18) plan on behalf of the spouse with less compensation.

Reduced or no deduction. If either you or your spouse were covered by an employer retirement plan, you may be entitled to only a partial (reduced) deduction or no deduction at all, depending on your income and your filing status. Your deduction begins to decrease (phase out) when your income rises above a certain amount and is eliminated altogether when it reaches a higher amount. The amounts vary depending on your filing status. See *Table 1.1*, earlier.

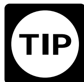
To determine if your deduction is limited, you must determine your modified adjusted gross income (AGI) and your filing status, as explained under *Deduction Phaseout.*

Deduction Phaseout

If you are covered by an employer retirement plan, your IRA deduction is reduced or eliminated entirely depending on your filing status and modified AGI, as shown in *Table A*.

Table A

If your ***filing status*** is:	Your IRA deduction is reduced if your ***modified AGI*** is between:	Your deduction is eliminated if your ***modified AGI*** is:
Single, or Head of household	$31,000 and $41,000	$41,000 or more
Married—joint return, or Qualifying widow(er)	$51,000 and $61,000	$61,000 or more
Married—separate return	$ 0 and $10,000	$10,000 or more



For 2000, if you are covered by a retirement plan at work, your IRA deduction will not be reduced (phased out) unless your modified AGI is between:

- *$32,000 (a $1,000 increase) and $42,000 for a single individual (or head of household),*
- *$52,000 (a $1,000 increase) and $62,000 for a married couple (or a qualifying widow(er)) filing a joint return, or*
- *$–0– (no increase) and $10,000 for a married individual filing a separate return.*

If you are not covered by an employer retirement plan, but your spouse is, your IRA deduction is reduced or eliminated entirely depending on your filing status and modified AGI as shown in the following *Table B*.

Table B

If your ***filing status*** is:	Your IRA deduction is reduced if your ***modified AGI*** is between:	Your deduction is eliminated if your ***modified AGI*** is:
Married—joint return	$150,000 and $160,000	$160,000 or more
Married—separate return	$ 0 and $ 10,000	$ 10,000 or more

Filing status. Your filing status depends primarily on your marital status. For this purpose you need to know if your filing status is single or head of household, married filing jointly or qualifying widow(er), or married filing separately. If you need more information on filing status, see Publication 501, *Exemptions, Standard Deduction, and Filing Information.*

Married filing separate exception. If you did not live with your spouse at any time during the year and you file a separate return, you are not treated as married and your filing status is considered, for this purpose, as single.

Modified adjusted gross income (AGI). How you figure your modified AGI depends on whether you are filing Form 1040 or Form 1040A.

Form 1040. If you file ***Form 1040***, figure the amount on the page 1 "adjusted gross income" line without taking into account any:

- IRA deduction,
- Student loan interest deduction,
- Foreign earned income exclusion,
- Foreign housing exclusion or deduction,
- Exclusion of qualified bond interest shown on Form 8815, or
- Exclusion of employer-paid adoption expenses shown on Form 8839.

This is your modified AGI.

Form 1040A. If you file ***Form 1040A***, figure the amount on the page 1 "adjusted gross income" line without taking into account any:

- IRA deduction,
- Student loan interest deduction,
- Exclusion of qualified bond interest shown on Form 8815, or
- Exclusion of employer-paid adoption expenses shown on Form 8839.

This is your modified AGI.

Do not assume that modified AGI is the same as your compensation. You will find that your modified AGI may include income in addition to your taxable compensation such as interest, dividends, and income from IRA distributions, discussed next.

Income from IRA distributions. If you received distributions in 1999 from one or more traditional IRAs and your traditional IRAs include only deductible contributions, the distributions are fully taxable.

If you made contributions to a traditional IRA for 1999 that may be nondeductible contributions (discussed later), depending on whether your IRA deduction for that year is reduced (see *Deduction Phaseout,* earlier), the distributions may be partly tax free and partly taxable. In that case, you must figure the taxable part of the traditional IRA distribution before you can figure your modified AGI. To do this, you can use the *Worksheet To Figure Taxable Part of Distribution,* under *Are Distributions Taxable?,* later.

Note. In 1999, you may have received taxable distributions from IRAs other than traditional IRAs as discussed in chapters 2, 3, and 5.

How To Figure Your Reduced IRA Deduction

If you are covered by an employer retirement plan and your modified AGI is within the phaseout range for your filing status (see *Table A* under *Deduction Phaseout,* earlier), your IRA deduction must be reduced. If you are not covered, but your spouse is, see *Table B* under *Deduction Phaseout.*

You can figure your reduced IRA deduction ***for either*** Form 1040 or Form 1040A by using the *Worksheet*

for Reduced IRA Deduction, that follows. Also, the instructions for these tax forms include similar worksheets.

Note. If you were married and either or both you and your spouse worked and you both contributed to IRAs, figure the deduction for each of you separately.

If you were divorced or legally separated (and did not remarry) before the end of the year, you cannot deduct any contributions to your spouse's IRA. After a divorce or legal separation, you can deduct the contributions to your own IRA and your deductions are subject to the rules for single individuals.

Figuring deductible and nondeductible contributions to a traditional IRA (including a spousal IRA). Complete lines 1 through 8 to figure your deductible and nondeductible IRA contributions for the year.

Worksheet for Reduced IRA Deduction

(Use only if you or your spouse is covered by an employer plan and your modified AGI is within the phaseout range that applies.)

If you are covered and your filing status is:	And your ***modified AGI*** is over:	***Enter*** on line 1 below:
Single or Head of household	$ 31,000	$ 41,000
Married–joint return or Qualifying widow(er)	$ 51,000	$ 61,000
Married–separate return	$ –0–	$ 10,000
If your spouse is covered, but you are not, and your filing status is:	And your ***modified AGI*** is over:	***Enter*** on line 1 below:
Married–joint return	$150,000	$160,000
Married–separate return	$–0–	$ 10,000

1. Enter the amount from above that applies .... ________
2. Enter your ***modified AGI*** (that of both spouses, if married filing jointly) .... ________

Note. If line 2 is equal to or more than the amount on line 1, **STOP HERE.** Contributions to your traditional IRA are not deductible. See *Nondeductible Contributions,* later.

3. Subtract line 2 from 1. **If line 3 is $10,000 or more, STOP HERE.** You can take a full IRA deduction for contributions of up to $2,000 or 100% of your compensation, whichever is less. .... ________
4. Multiply line 3 by 20% (.20). If the result is not a multiple of $10, round it to the next highest multiple of $10. (For example, $611.40 is rounded to $620.) However, if the result is less than $200, enter $200 .... ________
5. Enter your compensation. If you are filing a joint return and your compensation is less than your spouse's, include your spouse's compensation reduced by his or her traditional IRA contribution and contributions to Roth IRAs for this year. If you file Form 1040, do not reduce your compensation by any losses from self-employment. ________
6. Enter contributions made, or to be made, to your traditional IRA for 1999, but **do not** enter more than $2,000. If contributions are more than $2,000, see *Excess Contributions,* later. .... ________
7. **IRA deduction.** Compare lines 4, 5, and 6. Enter the smallest amount (or a smaller amount if you choose) here and on the Form 1040 or 1040A line for your IRA, whichever applies. If line 6 is more than line 7 and you want to make a nondeductible contribution, go to line 8. .... ________
8. **Nondeductible contribution.** Subtract line 7 from line 5 or 6, whichever is smaller. Enter the result here and on line 1 of your Form 8606. .... ________

Reporting Deductible Contributions

You do not have to itemize deductions to claim your deduction for IRA contributions. If you file ***Form 1040,*** deduct IRA contributions for 1999 on line 23. If you file ***Form 1040A,*** deduct IRA contributions on line 15. ***Form 1040EZ*** does not provide for IRA deductions.

When you must use Form 1040. You must use Form 1040 if you owe tax on any early distributions from your IRA, any excess contributions made to your IRA, or any excess accumulations in your IRA account. See *What Acts Result in Penalties?,* later.

Note. If you made contributions to a section 501(c)(18) pension plan, include your deduction in the total on line 32, Form 1040. Enter the amount and "501(c)(18)" on the dotted line next to line 32. See Publication 575 for information on deduction limits that apply to contributions to these plans.

Self-employed. If you are self-employed (a sole proprietor or partner) and have a SEP-IRA or a SIMPLE IRA, take your deduction for allowable plan contributions on line 29, Form 1040.

Withholding allowances. To figure the number of additional withholding allowances on your Form W–4, *Employee's Withholding Allowance Certificate,* you can take into account your estimated deductible IRA contributions. For this purpose, however, do not take into account any of your employer's regular contributions to your SEP-IRA or SIMPLE IRA. They generally are not included in your income and you cannot deduct them. SEP-IRAs and SIMPLE IRAs are discussed later in chapters 4 and 5. For more information on withholding, see Publication 505, *Tax Withholding and Estimated Tax.*

Form 5498. You should receive by June 1, 2000, Form 5498 or a similar statement from plan sponsors, showing all the contributions made to your IRA for 1999.

Nondeductible Contributions

Although your deduction for IRA contributions may be reduced or eliminated (see *How Much Can I Deduct?,* earlier), a contribution can be made to your IRA of up to $2,000 or 100% of compensation, whichever is less. For a spousal IRA, see *Spousal IRA limit,* under *How Much Can Be Contributed?,* earlier. The difference between your total permitted contributions and your total deductible contributions, if any, is your nondeductible contribution.

Example. Sonny Martin is single. In 1999, he is covered by a retirement plan at work. His salary is $52,312. His modified adjusted gross income (modified AGI) is $55,000. Sonny makes a $2,000 IRA contribu-

Form 1040

Adjusted Gross Income				
	23	IRA deduction (see page 26)	23	
	24	Student loan interest deduction (see page 26)	24	
	25	Medical savings account deduction. Attach Form 8853	25	
	26	Moving expenses. Attach Form 3903	26	
	27	One-half of self-employment tax. Attach Schedule SE	27	
	28	Self-employed health insurance deduction (see page 28)	28	
	29	Keogh and self-employed SEP and SIMPLE plans	29	
	30	Penalty on early withdrawal of savings	30	
	31a	Alimony paid b Recipient's SSN ▶	31a	
	32	Add lines 23 through 31a		32
	33	Subtract line 32 from line 22. This is your **adjusted gross income** ▶		33

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Form 1040A

Adjusted gross income				
	15	IRA deduction (see page 30).	15	
	16	Student loan interest deduction (see page 30).	16	
	17	Add lines 15 and 16. These are your **total adjustments.**		17
	18	Subtract line 17 from line 14. This is your **adjusted gross income.** ▶		18

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tion for that year. Because he is covered by a retirement plan and his modified AGI is above $41,000, he cannot deduct his $2,000 IRA contribution. However, he can choose to either:

1) Designate this contribution as a nondeductible contribution by reporting it on his tax return, as explained later under *Reporting Nondeductible Contributions*, or

2) Withdraw the contribution as explained later under *Contributions returned before the due date*.

As long as contributions are within the contribution limits, none of the earnings or gains on those contributions (deductible or nondeductible) will be taxed until they are distributed. See *When Can I Withdraw or Use IRA Assets?,* later.

Cost basis. You will have a cost basis in your IRA if there are nondeductible contributions. Your basis is the sum of the nondeductible contributions to your IRA less any distributions of those amounts. When you withdraw (or receive distributions of) these amounts, as discussed later under *Are Distributions Taxable?,* you can do so tax free.

Generally, you cannot withdraw only the amounts representing your basis. If deductible contributions have been made to any of your traditional IRAs, your withdrawals from any of your IRAs will generally include both taxable and nontaxable (basis) amounts. See Are Distributions Taxable?, *later, for more information.*

Reporting Nondeductible Contributions

You must report nondeductible contributions, but you do not have to designate a contribution as nondeductible until you file your tax return. When you file, you can even designate otherwise deductible contributions as nondeductible.

Designating nondeductible contributions. To designate contributions as nondeductible, you must file Form 8606. (See the filled-in Forms 8606 in *Appendix D*.) You must file Form 8606 to report nondeductible contributions even if you do not have to file a tax return for the year.

Form 8606. You must file Form 8606 if ***any*** of the following applies.

- You made nondeductible contributions to a traditional IRA for 1999.
- You received distributions from a traditional 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 IRA or a SIMPLE IRA to a Roth IRA during 1999. See chapter 2.
- You recharacterized amounts that were converted to a Roth IRA. See chapter 2.
- You received distributions from a Roth IRA in 1999. See chapter 2.
- You have a recharacterization involving a Roth IRA contribution. See chapter 2.

- You are the beneficiary of an education IRA and you received distributions from an education IRA in 1999. See chapter 3.

*You are **not** required to file Form 8606 to report contributions to Roth or education IRAs.*

Failure to report nondeductible contributions. If you do not report nondeductible contributions, all of the contributions to your traditional IRA will be treated as deductible. When you make withdrawals from your IRA, the amounts you withdraw will be taxed unless you can show, with satisfactory evidence, that nondeductible contributions were made.

There is a recordkeeping worksheet, Appendix A, *Summary Record of Traditional IRA(s) for 1999,* that you can use to keep records of deductible and nondeductible IRA contributions.

Penalty for overstatement. If you overstate the amount of nondeductible contributions on your Form 8606 for any tax year, you must pay a penalty of $100 for each overstatement, unless it was due to reasonable cause.

Penalty for failure to file Form 8606. You will have to pay a $50 penalty if you do not file a required Form 8606, unless you can prove that the failure was due to reasonable cause.

Examples — Worksheet for Reduced IRA Deduction

The following examples illustrate the use of the IRA deduction worksheet shown earlier under *How To Figure Your Reduced IRA Deduction.*

Example 1. For 1999, Tom and Betty Smith file a joint return on Form 1040. They both work and Tom is covered by his employer's retirement plan. Tom's salary is $40,000 and Betty's is $16,555. They each have a traditional IRA and their combined modified AGI is $57,555. Since their modified AGI is between $51,000 and $61,000 and Tom is covered by an employer plan, Tom is subject to the deduction phaseout discussed earlier under *Deduction Limits.*

For 1999, Tom contributed $2,000 to his IRA and Betty contributed $2,000 to hers. Even though they file a joint return, they must use separate worksheets to figure the IRA deduction for each of them.

Tom can take a deduction of only $690. He must treat $1,310 ($2,000 minus $690) of his contributions as nondeductible.

He can choose to treat the $690 as either deductible or nondeductible contributions. He can either leave the $1,310 of nondeductible contributions in his IRA or withdraw them by April 17, 2000. He decides to treat the $690 as deductible contributions and leave the $1,310 of nondeductible contributions in his IRA.

Using the *Worksheet for Reduced IRA Deduction*, Tom figures his deductible and nondeductible amounts as follows:

Worksheet for Reduced IRA Deduction

(Use only if you or your spouse is covered by an employer plan and your modified AGI is within the phaseout range that applies.)

If you are covered and your filing status is:	And your ***modified AGI*** is over:	***Enter*** on line 1 below:
Single, or Head of household	$31,000	$41,000
Married–joint return, or Qualifying widow(er)	$51,000	$61,000
Married–separate return	$ –0–	$10,000
If your spouse is covered, but you are not, and your filing status is:	And your ***modified AGI*** is over:	***Enter*** on line 1 below:
Married–joint return	$150,000	$160,000
Married–separate return	$–0–	$ 10,000

1. Enter the amount from above that applies .... $ 61,000
2. Enter your ***modified AGI*** (that of both spouses, if married filing jointly) 57,555

Note. If line 2 is equal to or more than the amount on line 1, **STOP HERE.** Your IRA contributions are not deductible. See *Nondeductible Contributions,* earlier.

3. Subtract line 2 from line 1. **If line 3 is $10,000 or more, STOP HERE.** You can take a full IRA deduction for contributions of up to $2,000 or 100% of your compensation, whichever is less. 3,445
4. Multiply line 3 by 20% (.20). If the result is not a multiple of $10, round it to the next highest multiple of $10. (For example, $611.40 is rounded to $620.) However, if the result is less than $200, enter $200 690
5. Enter your compensation. If you are filing a joint return and your compensation is less than your spouse's, include your spouse's compensation reduced by his or her traditional IRA contribution and contributions to Roth IRAs for this year. If you file Form 1040, do not reduce your compensation by any losses from self-employment. 40,000
6. Enter contributions made, or to be made, to your IRA for 1999, but **do not** enter more than $2,000. If contributions are more than $2,000, see *Excess Contributions,* later. 2,000
7. **IRA deduction.** Compare lines 4, 5, and 6. Enter the smallest amount (or a smaller amount if you choose) here and on the Form 1040 or 1040A line for your IRA, whichever applies. If line 6 is more than line 7 and you want to make a nondeductible contribution, go to line 8. 690
8. **Nondeductible contribution.** Subtract line 7 from line 5 or 6, whichever is smaller. Enter the result here and on line 1 of your Form 8606. 1,310

Betty figures her IRA deduction as follows. Betty can treat all or part of her contributions as either deductible or nondeductible. This is because her $2,000 contribution for 1999 is not subject to the deduction phaseout discussed earlier under *Deduction Limits.* She does not need to use the *Worksheet for Reduced IRA Deduction* since their modified AGI is not within the phaseout range that applies. Betty decides to treat her $2,000 IRA contributions as deductible.

The IRA deductions of $690 and $2,000 on the joint return for Tom and Betty total $2,690.

Example 2. Assume the same facts as in *Example 1*, except that Tom contributed $2,000 to his Roth IRA and $2,000 to a traditional IRA for Betty (a spousal IRA) because Betty had no compensation for the year and

did not contribute to an IRA. Also, their modified AGI has increased to $156,555. Betty figures her IRA deduction as follows:

Worksheet for Reduced IRA Deduction

(Use only if you or your spouse is covered by an employer plan and your modified AGI is within the phaseout range that applies.)

If you are covered and your filing status is:	And your ***modified AGI*** is over:	***Enter*** on line 1 below:
Single, or Head of household	$31,000	$41,000
Married–joint return, or Qualifying widow(er)	$51,000	$61,000
Married–separate return	$ –0–	$10,000
If your spouse is covered, but you are not, and your filing status is:	And your ***modified AGI*** is over:	***Enter*** on line 1 below:
Married–joint return	$150,000	$160,000
Married–separate return	$–0–	$ 10,000

1. Enter the amount from above that applies $160,000
2. Enter your ***modified AGI*** (that of both spouses, if married filing jointly) 156,555

Note. If line 2 is equal to or more than the amount on line 1, **STOP HERE.** Your IRA contributions are not deductible. See *Nondeductible Contributions,* earlier.

3. Subtract line 2 from line 1. **If line 3 is $10,000 or more, STOP HERE.** You can take a full IRA deduction for contributions of up to $2,000 or 100% of your compensation, whichever is less. 3,445
4. Multiply line 3 by 20% (.20). If the result is not a multiple of $10, round it to the next highest multiple of $10. (For example, $611.40 is rounded to $620.) However, if the result is less than $200, enter $200 690
5. Enter your compensation. If you are filing a joint return and your compensation is less than your spouse's, include your spouse's compensation reduced by his or her traditional IRA contribution and contributions to Roth IRAs for this year. If you file Form 1040, do not reduce your compensation by any losses from self-employment. 38,000*
6. Enter contributions made, or to be made, to your IRA for 1999, but **do not** enter more than $2,000. (If contributions are more than $2,000, see *Excess Contributions,* later.) 2,000
7. **IRA deduction.** Compare lines 4, 5, and 6. Enter the smallest amount (or a smaller amount if you choose) here and on the Form 1040 or 1040A line for your IRA, whichever applies. (If line 6 is more than line 7 and you want to make a nondeductible contribution, go to line 8.) 690
8. **Nondeductible contribution.** Subtract line 7 from line 5 or 6, whichever is smaller. Enter the result here and on line 1 of your Form 8606. 1,310

* $0 plus $40,000 minus $2,000 = $38,000.

Can I Move Retirement Plan Assets?

Traditional IRA rules permit you to transfer, tax free, assets (money or property) from other retirement programs (including traditional IRAs) to a traditional IRA. The rules permit the following kinds of transfers.

- Transfers from one trustee to another.
- Rollovers.
- Transfers incident to a divorce.

This chapter discusses all three kinds of transfers.

Transfers to Roth IRAs. Under certain conditions, you can move assets from a traditional IRA to a Roth IRA. See the discussion at *Can I Move Amounts Into a Roth IRA?* in chapter 2.

Trustee-to-Trustee Transfer

A transfer of funds in your traditional IRA from one trustee directly to another, either at your request or at the trustee's request, is ***not a rollover.*** Because there is no distribution to you, the transfer is tax free. Because it is not a rollover, it is not affected by the 1-year waiting period that is required between rollovers, discussed later under *Rollover From One IRA Into Another.*

For information about direct transfers from retirement programs other than traditional IRAs, see *Direct rollover option,* later in this chapter.

Rollovers

Generally, a rollover is a tax-free distribution to you of cash or other assets from one retirement plan that you contribute to another retirement plan. The contribution to the second retirement plan is called a “rollover contribution.”

Note. The amount you roll over tax free is generally taxable later when the new plan pays that amount to you or your beneficiary.

Kinds of rollovers to an IRA. There are two kinds of rollover contributions to a traditional IRA. In one, you put amounts you receive from one traditional IRA into another traditional IRA. In the other, you put amounts you receive from an employer's qualified retirement plan for its employees (see *Employer plans* under *Are You Covered by an Employer Plan?,* earlier) into a traditional IRA.

Treatment of rollovers. You cannot deduct a rollover contribution, but you must report the rollover distribution on your tax return as discussed later under *Reporting rollovers from IRAs* and *Reporting rollovers from employer plans.*

Rollover notice. A written explanation of rollover treatment must be given to you by the plan making the distribution.

Time Limit for Making a Rollover Contribution

You must make the rollover contribution by the 60th day after the day you receive the distribution from your traditional IRA or your employer's plan. However, see *Extension of rollover period,* later.

Rollovers completed after the 60-day period. Amounts not rolled over within the 60-day period do not qualify for tax-free rollover treatment and you must be treat them as a taxable distribution from either your IRA

or your employer's plan. The amount not rolled over is taxable in the year distributed, not in the year the 60-day period expires. You may also have to pay a 10% tax on premature distributions as discussed later under *Premature Distributions (Early Withdrawals).*

Treat a contribution after the 60-day period as a regular contribution to your IRA. Any part of the contribution that is more than the maximum amount you could contribute may be an excess contribution, as discussed later under *Excess Contributions.*

Extension of rollover period. If an amount distributed to you from a traditional IRA or a qualified employer retirement plan becomes a ***frozen deposit*** in a financial institution during the 60-day period allowed for a rollover, a special rule extends the rollover period.

The period during which the amount is a frozen deposit is not counted in the 60-day period, nor can the 60-day period end earlier than 10 days after the deposit is no longer frozen. To qualify under this rule, the deposit must be frozen on at least one day during the 60-day rollover period.

Frozen deposit. This is any deposit that cannot be withdrawn because of ***either*** of the following reasons.

1) The financial institution is bankrupt or insolvent.
2) The state where the institution is located restricts withdrawals because one or more financial institutions in the state are (or are about to be) bankrupt or insolvent.

Rollover From One IRA Into Another

You can withdraw, tax free, all or part of the assets from one traditional IRA if you reinvest them within 60 days in another traditional IRA. Because this is a rollover, you cannot deduct the amount that you reinvest in the new IRA.

You may be able to treat a contribution made to one type of IRA as having been made to a different type of IRA. This is called recharacterizing the contribution. See Recharacterizations *in chapter 2 for more information.*

Waiting period between rollovers. You can take (receive) a distribution from a traditional IRA and make a rollover contribution (of all or part of the amount received) to another traditional IRA only once in any 1-year period. The 1-year period begins on the date you receive the IRA distribution, not on the date you roll it over into another IRA. This rule applies separately to each traditional IRA you own.

Example. If you have two traditional IRAs, IRA–1 and IRA–2, and you roll over assets of IRA–1 into a new traditional IRA (IRA–3), you may also make a rollover from IRA–2 into IRA–3, or into any other traditional IRA, within 1 year after the rollover distribution from IRA–1. These are both allowable rollovers because you have not received more than one distribution from either IRA within 1 year. However, you cannot, within the 1-year period, again roll over the assets you rolled over into IRA–3 into any other traditional IRA.

If any amount distributed from a traditional IRA is rolled over tax free, later distributions from that IRA within a 1-year period will not qualify as rollovers. They are taxable and may be subject to the 10% tax on premature distributions.

Exception. An exception to the 1-year waiting period rule has been granted by the IRS for distributions made from a failed financial institution by the Federal Deposit Insurance Corporation (FDIC) as receiver for the institution. To qualify for the exception, the distribution must satisfy ***both*** of the following requirements.

1) It must ***not*** be initiated by either the custodial institution or the depositor.
2) It must be made because:
    a) The custodial institution is insolvent, and
    b) The receiver is unable to find a buyer for the institution.

The same property must be rolled over. You must roll over into a new traditional IRA the same property you received from your old traditional IRA.

Partial rollovers. If you withdraw assets from a traditional IRA, you can roll over part of the withdrawal tax free into another traditional IRA and keep the rest of it. The amount you keep will generally be taxable (except for the part that is a return of nondeductible contributions) and may be subject to the 10% tax on premature distributions discussed later under *Premature Distributions (Early Withdrawals).*

Required distributions. Amounts that must be distributed during a particular year under the required distribution rules (discussed later) ***are not eligible for rollover*** treatment.

Inherited IRAs. If you inherit a traditional IRA from your spouse, you generally can roll it over into a traditional IRA established for you, or you can choose to make it your own as discussed earlier (see *Inherited IRAs* under *How Much Can Be Contributed?).* Also, see *Distributions received by a surviving spouse,* later.

Not inherited from spouse. If you inherited a traditional IRA from someone other than your spouse, you cannot roll it over or allow it to receive a rollover contribution. You must withdraw the IRA assets within a certain period. For more information, see *Beneficiaries,*under *When Must I Withdraw IRA Assets?*, later.

Reporting rollovers from IRAs. Report any rollover from one traditional IRA to another traditional IRA on lines 15a and 15b of Form 1040, or on lines 10a and 10b of Form 1040A. Enter the total amount of the distribution on line 15a of Form 1040, or on line 10a of Form 1040A. If the total amount on line 15a of Form 1040, or on line 10a of Form 1040A was rolled over, enter zero on line 15b of Form 1040, or on line 10b of Form 1040A. Otherwise, enter the taxable portion of the part that was not rolled over on line 15b of Form 1040, or on line 10b of Form 1040A. See *Distributions Fully or Partly Taxable* under *Are Distributions Taxable?*.

Rollover From Employer's Plan Into an IRA

If you receive an ***eligible rollover distribution*** from your (or your deceased spouse's) employer's qualified pension, profit-sharing or stock bonus plan, annuity plan, or tax-sheltered annuity plan (403(b) plan), you can roll over all or part of it into a traditional IRA.

A qualified plan is one that meets the requirements of the Internal Revenue Code.

Eligible rollover distribution. Generally, an eligible rollover distribution is the taxable part of any distribution of all or part of the balance to your credit in a qualified retirement plan ***except:***

1) A required minimum distribution,
2) Hardship distributions from 401(k) plans and 403(b) plans, or
3) Any of a series of substantially equal periodic distributions paid at least once a year over:
   a) Your lifetime or life expectancy,
   b) The lifetimes or life expectancies of you and your beneficiary, or
   c) A period of 10 years or more.

The taxable parts of most other distributions are eligible rollover distributions. See *Maximum rollover,* later. Also, see Publication 575 for additional exceptions.

Written explanation to recipients. The administrator of a qualified employer plan must, within a reasonable period of time before making an eligible rollover distribution, provide you with a written explanation. It must tell you about all of the following.

- Your right to have the distribution paid tax free directly to a traditional IRA or another eligible retirement plan.
- The requirement to withhold tax from the distribution if it is not paid directly to a traditional IRA or another eligible retirement plan.
- The nontaxability of any part of the distribution that you roll over to a traditional IRA or another eligible retirement plan within 60 days after you receive the distribution.
- Other qualified employer plan rules, if they apply, including those for lump-sum distributions, alternate payees, and cash or deferred arrangements.

The plan administrator must provide you with a written explanation no earlier than 90 days and no later than 30 days before the distribution is made.

However, you can choose to have a distribution made less than 30 days after the explanation is provided as long as ***both*** of the following requirements are met.

1) You are given at least 30 days after the notice is provided to consider whether you want to elect a direct rollover.
2) You are given information that clearly states that you have this 30-day to make the decision.

Contact the plan administrator if you have any questions regarding this information.

Withholding requirement. If an eligible rollover distribution is paid directly to you, the payer must withhold 20% of it. This applies even if you plan to roll over the distribution to a traditional IRA (or another qualified plan as discussed in Publication 575). However, you can avoid withholding by choosing the direct rollover option, discussed later.

Exceptions. Withholding from an eligible rollover distribution paid to you is not required if ***either*** of the following conditions apply.

1) The distribution and all previous eligible rollover distributions you received during your tax year from the same plan (or, at the payer's option, from all your employer's plans) total less than $200.
2) The distribution consists solely of employer securities, plus cash of $200 or less in lieu of fractional shares.

Other withholding rules. If you receive a distribution that is not an eligible rollover distribution, the 20% withholding requirement does not apply. However, other withholding rules apply to these distributions. The rules that apply depend on whether the distribution is a periodic distribution or a nonperiodic distribution that is not an eligible rollover distribution. For either of these distributions, you can still choose not to have tax withheld. For more information, get Publication 575.

Direct rollover option. Your employer's qualified plan must give you the option to have any part of an eligible rollover distribution paid directly to a traditional IRA (or to an eligible retirement plan as discussed in Publication 575). Under this option, all or part of the distribution can be paid directly to a traditional IRA (or another eligible retirement plan that accepts rollovers). The plan is not required to give you this option if your eligible rollover distributions are expected to total less than $200 for the year.

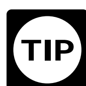
Withholding. If you choose the direct rollover option, no tax is withheld from any part of the designated distribution that is directly paid to the trustee of the traditional IRA (or other plan).

If any part is paid to you, the payer must withhold 20% of that part's taxable amount. Since most distributions are fully taxable, payers will generally withhold 20% of the entire amount designated for distribution to you.

Choosing the right option. You generally can leave all or part of the distribution in the plan. If you do not leave the distribution in your employer's plan, the following comparison chart may help you decide which distribution option to choose. Carefully compare the following tax effects of each option.

Comparison Chart

Direct Rollover	Payment to You
No withholding.	Payer must withhold income tax of 20% on the taxable part (even if you roll it over to a traditional IRA or other plan).
No 10% additional tax. (See *Premature Distributions*, later.)	If you are under age 59½, a 10% additional tax may apply to the taxable part (including an amount equal to the tax withheld) that is not rolled over.
Not income until later distributed to you from the IRA or other plan.	Any taxable part (including an amount equal to the tax withheld) not rolled over is income.



If you decide to roll over tax free any part of a distribution, the direct rollover option will generally be to your advantage. This is because you will not have 20% withholding or be subject to the 10% additional tax under that option.

If you have a lump-sum distribution and do not plan to roll over any part of it, the distribution may be eligible for special tax treatment that could lower your tax for the distribution year. In that case, you may want to see Publication 575 and Form 4972, Tax on Lump-Sum Distributions*, and its instructions to determine whether your distribution qualifies for special tax treatment and, if so, to figure your tax under the special methods.*

You can then compare any advantages from using Form 4972 to figure your tax on the lump-sum distribution with any advantages from rolling over tax free all or part of the distribution. If you roll over any part of the lump-sum distribution, however, you cannot use the Form 4972 special tax treatment for any part of the distribution.

Maximum rollover. The most you can roll over is the taxable part of any eligible rollover distribution (defined earlier) from your employer's qualified plan. The distribution you receive generally will be all taxable unless you have made nondeductible employee contributions to the plan.

Contributions you made to your employer's plan. You cannot roll over a distribution of contributions you made to your employer's plan, except voluntary deductible employee contributions (***DECs,*** defined below. If you roll over your contributions (other than DECs), you must treat them as regular (not rollover) contributions and you may have to pay an excess contributions tax (discussed later) on all or part of them.

DECs. These are voluntary deductible employee contributions. Prior to January 1, 1987, employees could make and deduct these contributions to certain qualified employers' plans and government plans. These are not the same as an employee's elective contributions to a 401(k) plan, which are not deductible by the employee.

If you receive a distribution from your employer's qualified plan of any part of the balance of your DECs and the earnings from them, you can roll over any part of the distribution.

No waiting period between rollovers. You can make more than one rollover of employer plan distributions within a year. The once-a-year limit on IRA-to-IRA rollovers does not apply to these distributions.

IRA as a holding account (conduit IRA) for rollovers to other eligible plans. An IRA qualifies as a conduit IRA if it is a traditional IRA that serves as a holding account or conduit for assets received from an eligible distribution from your first employer's plan. The conduit IRA must be made up of only those assets and gains and earnings on those assets. A conduit IRA will no longer qualify if you mix regular contributions or funds from other sources with the rollover distribution from your employer's plan.

If you receive an eligible rollover distribution from your employer's plan and roll over part or all of it into one or more conduit IRAs, you can later roll over those assets into a new employer's plan.

Property and cash received in a distribution. If you receive property and cash in an eligible rollover distribution from your employer's plan, you can roll over either the property or the cash, or any combination of the two that you choose.

Treatment if the same property is not rolled over. Your contribution to a traditional IRA of cash representing the fair market value of property received in a distribution from a qualified retirement plan does not qualify as a rollover if you keep the property. You must either roll over the property or sell it and roll over the proceeds, as explained next.

Sale of property received in a distribution from a qualified plan. Instead of rolling over a distribution of property other than cash from a qualified employer retirement plan, you can sell all or part of the property and roll over the amount you receive into a traditional IRA. You cannot substitute your own funds for property you receive from your employer's retirement plan.

Example. You receive a total distribution from your employer's plan consisting of $10,000 cash and $15,000 worth of property. You decided to keep the property. You can roll over to a traditional IRA the $10,000 cash received, but you cannot roll over an additional $15,000 representing the value of the property you choose not to sell.

Treatment of gain or loss. If you sell the distributed property and roll over all the proceeds into a traditional IRA, no gain or loss is recognized. The sale proceeds (including any increase in value) are treated as part of the distribution and are not included in your gross income.

Example. On September 2, Mike received a lump-sum distribution from his employer's retirement plan of $50,000 in cash and $50,000 in stock. The stock was not stock of his employer. On September 24, he sold the stock for $60,000. On October 4, he rolled over $110,000 in cash ($50,000 from the original distribution and $60,000 from the sale of stock). Mike does not include the $10,000 gain from the sale of stock as part of his income because he rolled over the entire amount into a traditional IRA.

Note. Special rules may apply to distributions of employer securities. For more information, get Publication 575.

Some sales proceeds rolled over. If you roll over part of the amount received from the sale of property, see Publication 575.

Life insurance contract. You cannot roll over a life insurance contract from a qualified plan into a traditional IRA.

Distributions received by a surviving spouse. If a distribution from an employer's qualified plan or a tax-sheltered annuity is paid to the surviving spouse of a deceased employee, that spouse can roll over into a traditional IRA part or all of any eligible rollover distribution (defined earlier). The surviving spouse can also roll over all or any part of a distribution of deductible employee contributions (DECs).

No rollover into another employer qualified plan. A surviving spouse cannot roll over a distribution described in the preceding paragraph into another qualified employer plan or annuity.

Distributions under divorce or similar proceedings (alternate payees). If you are the spouse or former spouse of an employee and you receive a distribution from a qualified employer plan as a result of divorce or similar proceedings, you may be able to roll over all or part of it into a traditional IRA. To qualify, the distribution must be:

1) One that would have been an eligible rollover distribution (defined earlier) if it had been made to the employee, and
2) Made under a qualified domestic relations order.

Qualified domestic relations order. A domestic relations order is a judgment, decree, or order (including approval of a property settlement agreement) that is issued under the domestic relations law of a state. A “qualified domestic relations order” gives to an alternate payee (a spouse, former spouse, child, or dependent of a participant in a retirement plan) the right to receive all or part of the benefits that would be payable to a participant under the plan. The order requires certain specific information, and it cannot alter the amount or form of the benefits of the plan.

Tax treatment if all of an eligible distribution is not rolled over. Any part of an eligible rollover distribution that you keep is taxable in the year you receive it. If you roll over none of it, special rules for lump-sum distributions may apply. See Publication 575. The 10% additional tax on premature distributions, discussed later under *What Acts Result in Penalties?,* does not apply.

Keogh plans and rollovers. If you are self-employed, you are generally treated as an employee for rollover purposes. Consequently, if you receive an eligible rollover distribution from a Keogh plan, you can roll over all or part of the distribution (including a lump-sum distribution) into a traditional IRA (or another eligible retirement plan as discussed in Publication 575). For information on lump-sum distributions, see Publication 575.

More information. For more information about Keogh plans, get Publication 560.

Distribution from a tax-sheltered annuity. If you receive an eligible rollover distribution from a tax-sheltered annuity plan, you can roll it over into a traditional IRA. You cannot roll it over into another eligible retirement plan unless that plan is a tax-sheltered annuity plan.

Receipt of property other than money. If you receive property other than money, you can sell the property and roll over the proceeds as discussed earlier.

Conduit IRA. If your traditional IRA contains only assets (including earnings and gains) that were rolled over from a tax-sheltered annuity, you can roll over these assets into another tax-sheltered annuity. If you plan another rollover into another tax-sheltered annuity, do not combine the assets in your IRA from the rollover with assets from another source. ***Do not*** roll over an amount from a tax-sheltered annuity into a qualified pension plan.

More information. For more information about tax-sheltered annuities, get Publication 571.

Rollover from bond purchase plan. If you redeem retirement bonds that were distributed to you under a qualified bond purchase plan, you can roll over tax free part of the amount you receive from the redemption into a traditional IRA.

You can redeem these bonds even if you are under age 59½. In addition, you can roll over the proceeds, tax free, into a qualified employer plan. However, when you receive a distribution at a later time, it will not be eligible for special 5- or 10-year averaging or 20% capital gain treatment.

Reporting rollovers from employer plans. To report a rollover from an employer retirement plan to a traditional IRA, use lines 16a and 16b, Form 1040, or lines 11a and 11b, Form 1040A. Do not use lines 15a or 15b, Form 1040, or lines 10a or 10b, Form 1040A.

Transfers Incident to Divorce

If an interest in a traditional IRA is transferred from your spouse or former spouse to you by a divorce or separate maintenance decree or a written document related to such a decree, the interest in the IRA, starting from the date of the transfer, is treated as your IRA. ***The transfer is tax free.*** For information about transfer of interests in employer plans, see *Distributions under divorce or similar proceedings (alternate payees),* under *Rollovers,* earlier.

Transfer methods. If you are required to transfer some or all of the assets in a traditional IRA to your spouse or former spouse, there are two commonly used methods that you can use to make the transfer. The methods are:

- Changing the name on the IRA, and

• Making a direct transfer of IRA assets.

Changing the name on the IRA. If all the assets in a traditional IRA are to be transferred, you can make the transfer by changing the name on the IRA from your name to the name of your spouse or former spouse.

Direct transfer. Under this method, you direct the trustee of the traditional IRA to transfer the affected assets directly to the trustee of a new or existing traditional IRA set up in the name of your spouse or former spouse. If your spouse or former spouse is allowed to keep his or her portion of the IRA assets in your existing IRA, you can direct the trustee to transfer the assets you are permitted to keep directly to a new or existing traditional IRA set up in your name. The name on the IRA containing your spouse's or former spouse's portion of the assets would then be changed to show his or her ownership.

When Can I Withdraw or Use IRA Assets?

Because a traditional IRA is a tax-favored means of saving for your retirement, there are rules limiting the withdrawal and use of your IRA assets. Violation of the rules generally results in additional taxes in the year of violation. See *What Acts Result in Penalties?*, later.

Age 59½ Rule

Generally, if you are under age 59½ and you withdraw assets (money or other property) from your traditional IRA, you must pay a 10% additional tax. Withdrawals before you are age 59½ are called premature distributions or early withdrawals. This tax is 10% of the part of the distribution that you have to include in gross income. It is in addition to any regular income tax on the amount you have to include in gross income. A number of exceptions to this rule are discussed below under *Exceptions.* Also see *Premature Distributions (Early Withdrawals)* under *What Acts Result in Penalties?*, later.

You may have to pay a 25%, rather than 10%, additional tax if you withdraw amounts from a SIMPLE IRA before you are age 59½. See Additional Tax on Premature Distributions (Early Withdrawals), *in chapter 5.*

Note. If you receive a distribution from a traditional IRA that includes a return of nondeductible contributions, the 10% additional tax does not apply to the nontaxable part of the distribution. See *Figuring the Nontaxable and Taxable Amounts* under *Are Distributions Taxable?,* later in this chapter.

After age 59½ and before age 70½. After you reach age 59½, you can withdraw assets from your traditional IRA without having to pay the 10% additional tax. Even though you can make withdrawals, you do not have to withdraw any assets from your IRA until you reach age 70½. See *When Must I Withdraw IRA Assets (Required Distributions)?,* later in this chapter.

Exceptions

There are several exceptions to the age 59½ rule. You may qualify for an exception if you are in one of the following situations.

- You have ***unreimbursed medical expenses*** that are more than 7.5% of your adjusted gross income.
- The distributions are not more than the cost of your ***medical insurance***.
- You are ***disabled***.
- You are the ***beneficiary*** of a deceased IRA owner.
- You are receiving distributions in the form of an ***annuity***.
- The distributions are not more than your qualified ***higher education expenses***.
- You use the distributions to buy, build, or rebuild a ***first home***.
- The distribution is of ***contributions returned before the due date*** of your tax return.
- The distribution is due to an ***IRS levy*** of the qualified plan.

Most of these exceptions are explained below.

Note. Distributions that are timely and properly rolled over, as discussed earlier, are not subject to either regular income tax or the 10% additional tax. Certain withdrawals of excess contributions after the due date of your return are also tax free and not subject to the 10% additional tax. (See *Excess Contributions Withdrawn After Due Date of Return,* under *What Acts Result in Penalties?*, later). This also applies to transfers incident to divorce, as discussed earlier under *Can I Move Retirement Plan Assets?*.

Unreimbursed medical expenses. Even if you are under age 59½, you do not have to pay the additional 10% tax on amounts you withdraw that are not more than:

1) The amount you paid for unreimbursed medical expenses during the year of the withdrawal, minus
2) 7.5% of your adjusted gross income for the year of the withdrawal.

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

Medical insurance. Even if you are under age 59½, you may not have to pay the 10% additional tax on amounts you withdraw from your traditional IRA during the year that are not more than the amount you paid during the year for medical insurance for yourself, your spouse, and your dependents. You will not have to pay the tax on these amounts if ***all four*** of the following conditions apply.

1) You lost your job.

2) You received unemployment compensation paid under any federal or state law for 12 consecutive weeks.

3) You make the withdrawals during either the year you received the unemployment compensation or the following year.

4) You make the withdrawals no later than 60 days after you have been reemployed.

Disabled. If you become disabled before you reach age 59½, any amounts you withdraw from your traditional IRA because of your disability are not subject to the 10% additional tax.

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

Beneficiary. If you die before reaching age 59½, the assets in your traditional IRA can be distributed to your beneficiary or to your estate without either having to pay the 10% additional tax.

However, if you inherit a traditional IRA from your deceased spouse and elect to treat it as your own (as discussed under *Inherited IRAs*, earlier), any distribution you later receive before you reach age 59½ may be subject to the 10% additional tax.

Annuity. You can receive distributions from your traditional IRA that are part of a series of substantially equal payments over your life (or your life expectancy), or over the lives (or the joint life expectancies) of you and your beneficiary, without having to pay the 10% additional tax, even if you receive such distributions before you are age 59½. You must use an IRS-approved distribution method and you must take at least one distribution annually for this exception to apply. See *Figuring the Minimum Distribution,* later, for one IRS-approved distribution method, generally referred to as the "life expectancy method." This method, when used for this purpose, results in the exact amount required to be distributed, not the minimum amount.

There are two other IRS-approved distribution methods that you can use. They are generally referred to as the "amortization method" and the "annuity factor method." These two methods are not discussed in this publication because they are more complex and generally require professional assistance. See IRS Notice 89–25 in Internal Revenue Cumulative Bulletin 1989–1 for more information on these two methods. This notice can be found in many libraries and IRS offices.

The payments under this exception must continue for at least 5 years, or until you reach age 59½, whichever is the longer period. This 5-year rule does not apply if a change from an approved distribution method is made because of the death or disability of the IRA owner.

If the payments under this exception are changed before the end of the above required periods for any reason other than the death or disability of the IRA owner, he or she will be subject to the 10% additional tax.

For example, if you received a lump-sum distribution of the balance in your traditional IRA before the end of the required period for your annuity distributions and you did not receive it because you were disabled, you would be subject to the 10% additional tax. The tax would apply to the lump-sum distribution and all previous distributions made under the exception rule.

Higher education expenses. Even if you are under age 59½, if you paid expenses for higher education during the year, part (or all) of any withdrawal may not be subject to the 10% additional tax on early withdrawals. The part not subject to the tax is generally the amount that is not more than the qualified higher education expenses (defined later) for the year for education furnished at an eligible educational institution (defined later). The education must be for you, your spouse, or the children or grandchildren of you or your spouse.

When determining the amount of the withdrawal that is not subject to the 10% additional tax, ***include*** qualified higher education expenses paid with any of the following funds.

- An individual's earnings.
- A loan.
- A gift.
- An inheritance given to either the student or the individual making the withdrawal.
- Personal savings (including savings from a qualified state tuition program).

Do not include expenses paid with any of the following funds.

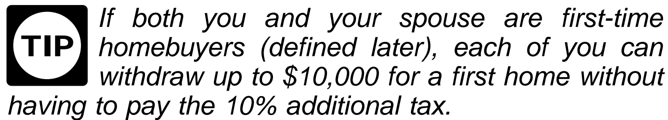
- Tax-free distributions from an education IRA.
- Tax-free scholarships, such as a Pell grant.
- Tax-free employer-provided educational assistance.
- Any tax-free payment (other than a gift, bequest, or devise) due to enrollment at an eligible educational institution.

Qualified higher education expenses. Qualified higher education expenses are tuition, fees, books, supplies, and equipment required for the enrollment or attendance of a student at an eligible educational institution. In addition, if the individual is at least a half-time student, room and board are qualified higher education expenses.

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

First home. Even if you are under age 59½, you do not have to pay the 10% additional tax on amounts you withdraw to buy, build, or rebuild a first home. To qualify for treatment as a first-time homebuyer distribution, the distribution must meet ***all*** the following requirements.

1) It must be used to pay qualified acquisition costs (defined later) before the close of the 120th day after the day you received it.
2) It must be used to pay qualified acquisition costs for the main home of a first-time homebuyer (defined later) who is any of the following.
   a) Yourself.
   b) Your spouse.
   c) Your or your spouse's child.
   d) Your or your spouse's grandchild.
   e) Your or your spouse's parent or other ancestor.
3) When added to all your prior qualified first-time homebuyer distributions, if any, the total distributions cannot be more than $10,000.



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

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

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

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

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

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

Contributions returned before the due date. If you made IRA contributions for 1999, you can withdraw them tax free by the due date of your return. If you have an extension of time to file your return, you can withdraw them tax free by the extended due date. You can do this if ***both*** the following apply.

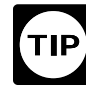
- You did not take a deduction for the contributions you withdraw.
- You also withdraw any interest or other income earned on the contributions.

You must include in income any earnings on the contributions you withdraw. Include the earnings in income for the year in which you made the withdrawn contributions.

Generally, except for any part of a withdrawal that is a return of nondeductible contributions (basis), any withdrawal of your contributions after the due date (or extended due date) of your return will be treated as a taxable distribution. Another exception is the return of an excess contribution as discussed under What Acts Result in Penalties?, *later.*

Premature distributions tax. The 10% additional tax on withdrawals made before you reach age 59½ does not apply to these tax-free withdrawals of your contributions. However, your early withdrawal of interest or other income must be reported on Form 5329 and, unless the withdrawal qualifies as an exception to the age 59½ rule, it will be subject to this tax. See *Premature Distributions (Early Withdrawals)* under *What Acts Result in Penalties?,* later.

Excess contributions tax. If any part of these contributions is an excess contribution for 1998, it is subject to a 6% excise tax. You will not have to pay the 6% tax if any 1998 excess contribution was withdrawn by April 15, 1999 (plus extensions), and if any 1999 excess contribution is withdrawn by April 17, 2000 (plus extensions). See *Excess Contributions* under *What Acts Result in Penalties?,* later.



You may be able to treat a contribution made to one type of IRA as having been made to a different type of IRA. This is called recharacterizing the contribution. See Recharacterizations *in chapter 2 for more information.*

When Must I Withdraw IRA Assets? (Required Distributions)

You cannot keep funds in a traditional IRA indefinitely. Eventually you ***must*** withdraw them. If you do not make any withdrawals, or if you do not withdraw enough, you may have to pay a 50% excise tax on the amount not withdrawn as required. See *Excess Accumulations,* later. The requirements for withdrawing IRA funds differ, depending on whether you are the IRA owner or the beneficiary of a decedent's IRA.

IRA Owners

If you are the owner of a traditional IRA, you must withdraw the entire balance in your IRA or start receiving periodic distributions from your IRA by April 1 of the year following the year in which you reach age 70½. This date is referred to as the ***required beginning date***.

Periodic distributions. If you do not withdraw the entire balance in your traditional IRA by the required beginning date, you must start to withdraw periodic distributions over one of the following periods:

1) Your life,
2) The lives of you and your ***designated beneficiary*** (defined later),

3) A period that does not extend beyond your life expectancy, or

4) A period that does not extend beyond the joint life and last survivor expectancy of you and your designated beneficiary.

See *Determining Life Expectancy,* later, for more details.

If you choose to receive periodic distributions, you must receive at least a minimum amount for each year starting with the year you reach age 70½ (your 70½ year). If you do not (or did not) receive that minimum amount in your 70½ year, then you must receive distributions for your 70½ year that you reach the minimum amount by April 1 of the next year. See *Minimum distributions,* later.

Designated beneficiary. A designated beneficiary, for these purposes, is any individual you name to receive your traditional IRA upon your death.

Multiple individual beneficiaries. If you have more than one beneficiary and all are individuals, the beneficiary with the shortest life expectancy will be the designated beneficiary used to determine the period over which you must make withdrawals. Also, see *Minimum Distribution Incidental Benefit (MDIB) Requirement,* later.

Changing the designated beneficiary. You can change your designated beneficiary before or after the required beginning date. If, after the distributions period has been determined, you name a new designated beneficiary with a shorter life expectancy than the individual you are replacing, you must refigure the period over which you must make withdrawals for subsequent years using the life expectancy of the new designated beneficiary. The new period is the period that would have been the remaining joint life and last survivor expectancy of you and the new designated beneficiary if that beneficiary had been designated on the required beginning date. See *Determining Life Expectancy,* later. If the new designated beneficiary has a longer life expectancy than the individual you are replacing, you cannot recalculate the period over which you must make withdrawals, except as provided under *Refiguring life expectancy elected,* later.

Naming a trust. Generally, if you name a trust to replace your designated beneficiary after the required beginning date, you must refigure the period over which you must make withdrawals for subsequent years using only your remaining life expectancy.

Distributions after the required beginning date. The required minimum distribution for any year after your 70½ year must be made by December 31 of that later year.

Example. You reach age 70½ on August 20, 1999. For 1999 (your 70½ year), you must receive the required minimum distribution from your IRA by April 1, 2000. You must receive the required minimum distribution for 2000 (the first year after your 70½ year) by December 31, 2000.

Beneficiaries

If you are the beneficiary of a decedent's traditional IRA, the requirements for withdrawals from that IRA depend on whether distributions that satisfy the minimum distributions requirement have begun.

Determining when distributions have begun. For purposes of determining the requirements for withdrawals from a decedent's traditional IRA, distributions to the deceased owner generally are considered as having begun on the required beginning date, even if payments actually began before that date. This means that if the IRA owner dies before the required beginning date, distributions generally are not considered to have begun before the owner's death.

Exception. If distributions in the form of an annuity irrevocably began to the IRA owner before the required beginning date and began over a permitted period, distributions are considered to have begun before the owner's death, even if the owner died before the required beginning date. This exception applies only if the annuity provided for periodic distributions at intervals of no more than 1 year over one of the permitted periods listed earlier under *Periodic distributions.*

Distributions begun before owner's death. If periodic distributions that satisfy the minimum distribution requirements have begun and the owner dies, any undistributed amounts must be distributed at least as rapidly as under the method being used at the owner's death.

Exception. This rule does not apply if the designated beneficiary is the owner's surviving spouse who becomes the new owner by choosing to treat the IRA as his or her own IRA. See *Inherited IRAs,* earlier. In that case, the surviving spouse can designate beneficiaries and should follow the required distribution rules for owners of traditional IRAs as discussed under *IRA Owners,* earlier.

Owner dies before distributions have begun. If the owner dies before distributions that satisfy the minimum distribution requirements have begun, the entire interest must be distributed under one of the following two rules.

Rule 1. By December 31 of the fifth year following the year of the owner's death.

Rule 2. Over the life of the designated beneficiary or over a period not extending beyond the life expectancy of the designated beneficiary. See *Table I (Single Life Expectancy)* in *Appendix E.*

The terms of the traditional IRA can specify whether rule 1 or 2 applies, or they can permit either the owner or beneficiary to choose which rule applies. If the owner or beneficiary can choose which rule applies, the choice must generally be made by December 31 of the year following the year of the owner's death. This is because distributions generally must begin under rule 2 by that date.

Under rule 2, at least a minimum amount must be distributed each year.

No rule specified or chosen. If no rule has been specified or chosen, distribution must be made under rule 2 if the beneficiary is the surviving spouse (and he or she did not choose to treat the traditional IRA as his or her own), or under rule 1 if the beneficiary is not the surviving spouse.

Rule 2 picked and spouse is not the beneficiary. If rule 2 has been specified or chosen and the beneficiary is not the surviving spouse, distribution must begin by December 31 of the year following the year of the owner's death.

Rule 2 picked and spouse is the beneficiary. If rule 2 has been specified or chosen and the beneficiary is the surviving spouse (and he or she did not choose to treat the IRA as his or her own), distribution must begin by the ***later of*** the following two dates.

- December 31 of the year the IRA owner would have reached age 70½.
- December 31 of the year following the year of the owner's death.

Spouse dies before receiving distribution. A special rule applies if the surviving spouse dies before the date distributions to the spouse must begin. In this case, distributions may be made to the spouse's beneficiary as if the spouse's beneficiary were the IRA owner's spouse and the owner died on the spouse's date of death.

Spouse remarried. However, if the surviving spouse has remarried since the owner's death and the new spouse is designated as the spouse's beneficiary, the special rules that apply to surviving spouses would not apply to the new spouse.

Minimum Distributions

If you are the owner of a traditional IRA that is an individual retirement ***account,*** you must figure the minimum amount required to be distributed each year. See *Figuring the Minimum Distribution,* below.

If your traditional IRA is an individual retirement ***annuity,*** special rules apply to figuring the minimum distribution required. For more information on rules for annuities, get proposed regulation sections 1.401(a)(9)–1, 1.401(a)(9)–2, and 1.408–8. These regulations can be read in many libraries and IRS offices.

Figuring the Minimum Distribution

Figure your required minimum distribution for each year by dividing the ***IRA account balance*** (defined later) as of the close of business on December 31 of the preceding year by the ***applicable life expectancy*** (defined later). If you have a beneficiary other than your spouse who is more than 10 years younger than you, the distribution must satisfy the minimum distribution incidental benefit (MDIB) requirement discussed later. If this is the case, compare the ***applicable divisor*** (see *Table for Determining Applicable Divisor for MDIB* in *Appendix E*) and the applicable life expectancy and use the lower number.

Note. Although all required distributions must satisfy the MDIB requirement, as discussed later, the comparison involved in satisfying the requirement makes a difference in the amount required to be distributed only if you have a beneficiary, other than your spouse, who is more than 10 years younger than you. If the only beneficiary of your account is your spouse, even if your spouse is more than 10 years younger, the MDIB requirement is satisfied by figuring the distribution as if the MDIB requirement did not apply.

IRA account balance. The IRA account balance is the amount in the traditional IRA at the end of the immediately preceding year with the following adjustments.

1) ***Contributions.*** The amount in the IRA at the end of the preceding year is increased by any contributions for the preceding year that were made in the year for which the minimum distribution is being figured.
2) ***Distributions.*** For purposes of figuring the minimum distribution for the second distribution year only, the amount in the IRA at the end of the preceding year is reduced by any distribution made in that year to satisfy the minimum distribution requirements for the first distribution year. The first distribution year is the year the owner reaches age 70½. The next year is the second distribution year.

See *Example 1,* later.

Applicable life expectancy. The applicable life expectancy is:

- The owner's remaining life expectancy (single life expectancy),
- The remaining joint life expectancy of the owner and the owner's designated beneficiary, or
- If the owner dies before distributions have begun, the remaining life expectancy of the designated beneficiary.

For more information, see *Determining Life Expectancy,* later.

Example 1. Joe, born October 1, 1928, reached 70½ in 1999. His wife (his beneficiary) turned 56 in September 1999. He must begin receiving distributions by April 1, 2000. Joe's IRA account balance as of December 31, 1998, is $29,000. Based on their ages at year end (December 31, 1999), the joint life expectancy for Joe (age 71) and his beneficiary (age 56) is 29 years (see *Table II* in *Appendix E*). The required minimum distribution for 1999, Joe's first distribution year (his 70½ year), is $1,000 ($29,000 divided by 29). This amount is distributed to Joe on April 1, 2000.

Joe's IRA account balance as of December 31, 1999, is $29,725.

To figure the minimum amount that must be distributed for 2000, the IRA account balance (as of December 31, 1999) of $29,725 is reduced by the $1,000 minimum required distribution for 1999 that was made on April 1, 2000. The account balance for determining the required distribution for 2000 is $28,725.

Determining Life Expectancy

Life expectancies are determined using life expectancy tables like *Tables I* and *II* in *Appendix E*. More extensive tables are in Publication 939.

How do I use the tables? If the periodic payments are for your life only, use the applicable life expectancy in *Table I (Single Life Expectancy)* to determine your annual minimum distribution. If the payments are for the lives of you and your designated beneficiary, use the applicable life expectancy in *Table II (Joint Life and Last Survivor Expectancy)*.

If you designate as your beneficiary someone (other than your spouse) who is more than 10 years younger than you and the distributions are not made as annuity payments under an annuity contract, be sure to see Minimum Distribution Incidental Benefit (MDIB) Requirement, *later.*

What ages do I use? For distributions beginning by the required beginning date (see *Periodic distributions* under *IRA Owners,* earlier), determine life expectancies using your age and the age of your designated beneficiary (assuming you are using *Table II*) as of your birthdays in the year you become age 70½.

Owner dies before distributions begin. If the owner dies before the owner's required beginning date, the life expectancy of the designated beneficiary is determined using *Table I* and the age as of the beneficiary's birthday in the year distributions must begin. See *Owner dies before distributions have begun,* earlier, for more information.

Life expectancy for subsequent year distributions. Unless you choose to ***refigure*** your (or your spouse's) life expectancy each year (as discussed next), it must be reduced by one for each year that has passed since the date the life expectancy was initially determined. Use of this rule is said to result in distributions under the ***term certain*** method.

Designated beneficiary dies. If you use the term certain method and your designated beneficiary dies, you do not have to refigure life expectancy by substituting a different life expectancy for that of the deceased beneficiary. Whether or not there is another beneficiary, continue to use the joint life expectancy that you were using before your designated beneficiary died.

Election to refigure life expectancy. Your traditional IRA terms may permit you and your spouse to elect whether to refigure one or both of your life expectancies. You must make this election by the date of the first required minimum distribution. See *Required beginning date,* earlier.

Refiguring life expectancy elected. If you own a traditional IRA and elect to refigure your life expectancy (and that of your spouse, if it applies), it must be refigured annually unless your IRA terms provide otherwise. If you refigure life expectancy annually, the reduction of it by one for each year after it was initially determined (the term certain method) does not apply.

Refiguring your life expectancy. To refigure your life expectancy for each year, use your age as of your birthday during the year. Then find your "refigured" life expectancy amount on *Table I*.

Refiguring joint life and last survivor expectancy. To refigure the joint life and last survivor expectancy of you and your spouse for each year, use your and your spouse's ages as of your birthdays during the year. Then find your "refigured" life expectancy amount on *Table II*.

Beneficiary not spouse or choosing not to refigure. If your designated beneficiary is not your spouse or if either (but not both) you or your spouse elect not to refigure, do not use this method to refigure your life expectancy. You must use a special computation method that is discussed under *Minimum Distribution Incidental Benefit (MDIB) Requirement,* and illustrated in *Example 3,* later.

You can use the worksheet provided at the bottom of *Appendix A* for determining your required distribution whether or not you refigure life expectancy.

If you or your spouse dies. If the joint life expectancy of you and your spouse is refigured annually and either of you dies, then only the survivor's life expectancy is used to figure distributions for the years after the year in which the death occurred.

If you and your spouse die. If the life expectancies of both you and your spouse are refigured and both of you die after the date distributions must start, the entire interest must be distributed before the last day of the year following the year of the second death.

If you die and your designated beneficiary is not your spouse. If your life expectancy is being refigured annually and you die, then only the life expectancy of the designated beneficiary is used to determine distributions for the years after the year in which your death occurs. The beneficiary's life expectancy must be determined in the same way as before your death (see *Example 3,* later), except that neither *Table II* nor the MDIB requirement (discussed next) applies after your death. Using *Example 3,* steps 1 through 4, and assuming Joe died in 1998, Joe's brother's life expectancy after Joe's death would be 25.9, the amount from *Table I* in step 4 of the example.

This rule also applies if your spouse is your designated beneficiary and his or her life expectancy is not refigured annually.

Further information. The above rules are explained more fully in sections 1.401(a)(9)–1, 1.401(a)(9)–2, and 1.408 of the proposed Income Tax Regulations. These regulations can be read in many libraries and IRS offices.

Minimum Distribution Incidental Benefit (MDIB) Requirement

Distributions from a traditional IRA during the owner's lifetime must satisfy the MDIB requirement. This is to ensure that the IRA is used primarily to provide retirement benefits to the IRA owner. After the owner's death, only "incidental" benefits are expected to remain for distribution to the owner's beneficiary (or beneficiaries).

Spouse is beneficiary. If your spouse is your only beneficiary, you will satisfy the MDIB requirement if you satisfy the general minimum distribution requirements discussed earlier.

If you have two or more beneficiaries, including your spouse, the rule for spouses in the preceding paragraph applies only if your spouse's portion of your benefit is in a separate account.

Nonspouse beneficiary more than 10 years younger. If you have a beneficiary other than your spouse who is more than 10 years younger than you, there are three additional steps to figure your required minimum distribution that satisfies the MDIB requirement.

1) Find the ***applicable divisor*** for a person your age in *Appendix E* under *Table for Determining Applicable Divisor for MDIB.* Use your age as of your birthday in the year that you are figuring the minimum distribution.
2) Compare your applicable divisor and your ***applicable life expectancy*** (see *Figuring the Minimum Distribution,* earlier) for the year, and determine which number is smaller.
3) Divide the ***IRA account balance*** (see *Figuring the Minimum Distribution,* earlier) as of the close of business of the December 31 of the preceding year by the smaller of your applicable divisor or your applicable life expectancy. This is your required minimum distribution.

Example 2. Assume the same facts as in *Example 1,* earlier, except that Joe's beneficiary is his brother. Because Joe's beneficiary is not his spouse, he must use the *Table for Determining Applicable Divisor for MDIB* (see *Appendix E*) and compare the applicable divisor from that table to the life expectancy determined using *Table II (Joint Life and Last Survivor Expectancy)* in *Appendix E*. Joe must use the smaller number from the tables. In this example, the required minimum distribution for 1999 is $1,146 ($29,000 divided by 25.3) instead of the $1,000 computed in *Example 1*. Joe's adjusted December 31, 1999, account balance to be used for determining the required distribution for 2000 is $28,579 ($29,725 minus $1,146).

Example 3. Assume the same facts as in *Example 2*, except that, because Joe's IRA terms do not provide otherwise, he must refigure life expectancies to figure his required minimum distribution for 2000. Joe's minimum distribution for 2000 is figured by dividing his adjusted account balance as of December 31, 1999 ($28,579) by his and his brother's joint life and last survivor expectancy. Their joint life and last survivor expectancy can be refigured as follows:

1) Life expectancy of nonspouse beneficiary (from *Table I* in *Appendix E*) using his or her age (56 in this example) as of his or her birthday in calendar year 1999	27.7
2) Number of years that have passed since 1999 (Use whole number.)	1
3) Remaining life expectancy period. Subtract line 2 from line 1	26.7
4) Find the divisor amount in *Table I* that is closest to, but less than the amount on line 3 (25.9 in this example). Enter the age shown for that divisor amount	58
5) IRA owner's age as of his or her birthday in calendar year 2000	72
6) Joint life and last survivor expectancy (from *Table II* in *Appendix E*) using the ages on lines 4 and 5	27.3
7) Applicable divisor (from *Table for Determining Applicable Divisor for MDIB*)	24.4
8) ***Refigured life expectancy.*** Compare lines 6 and 7. Enter the smaller number here	24.4

Joe's required minimum distribution for 2000, using the refigured life expectancy (line 8 above), is $1,171 ($28,579 divided by 24.4).

Effect of the IRA owner's death. The MDIB requirement does not apply to distributions in years after the death of the original IRA owner. See *If you die and your designated beneficiary is not your spouse* under *Refiguring life expectancy elected*, earlier.

Further information. Required distribution rules are explained more fully in sections 1.401(a)(9)–1, 1.401(a)(9)–2, and 1.408 of the proposed Income Tax Regulations. These regulations can be found in many libraries and IRS offices.

Miscellaneous Rules for Minimum Distributions

The following rules may apply to your minimum distribution.

Installments allowed. The yearly minimum required distribution can be taken in a series of installments (monthly, quarterly, etc.) as long as the total distributions for the year are at least as much as the minimum required amount.

More than one IRA. If you have more than one traditional IRA, you must determine the required minimum distribution separately for each IRA. However, you can total these minimum amounts and take the total from any one or more of the IRAs.

Example. Sara, born August 1, 1927, became 70½ on February 1, 1999. She has two traditional IRAs. She must begin receiving her IRA distributions by April 1, 2000. On December 31, 1998, Sara's account balance from IRA A was $10,000; her account balance from IRA B was $20,000. Sara's brother, age 64 as of his birthday in 1999, is the beneficiary of IRA A. Her husband, age 78 as of his birthday in 1999, is the beneficiary of IRA B.

Sara's required minimum distribution from IRA A is $427 ($10,000 divided by 23.4, the joint life and last survivor expectancy of Sara and her brother per *Table II* in *Appendix E*). The amount of the required minimum distribution from IRA B is $1,143 ($20,000 divided by 17.5, the joint life and last survivor expectancy of Sara and her husband per *Table II* in *Appendix E*). The required minimum distribution that must be withdrawn by Sara from her IRA accounts by April 1, 2000, is $1,570 ($427 plus $1,143).

More than minimum received. If, in any year, you receive more than the required minimum amount for that year, you will not receive credit for the additional amount when determining the required minimum amounts for future years. This does not mean that you

do not reduce your IRA account balance. It means that you cannot count the amount distributed in one year that is more than the amount required to be distributed as a distribution of an amount required to be distributed in a later year. However, any amount distributed in your 70½ year will be credited toward the amount that must be distributed by April 1 of the following year.

Annuity distributions from an insurance company. Special rules apply if you receive distributions from your traditional IRA as an annuity purchased from an insurance company. See *Further information,* earlier.

Are Distributions Taxable?

In general, include distributions from a traditional IRA in your gross income in the year you receive them.

Failed financial institutions. This general rule applies to distributions made (with or without your consent) by a state agency as receiver of an insolvent savings institution. This means you must include such distributions in your gross income unless you can roll them over. For an exception to the 1-year waiting period rule for rollovers of certain distributions from failed financial institutions, see *Exception* under *Rollover From One IRA Into Another,* earlier.

Exceptions. Exceptions to the general rule are rollovers and tax-free withdrawals of contributions, discussed earlier, and the return of nondeductible contributions, discussed next under *Distributions Fully or Partly Taxable.*

Although a conversion of a traditional IRA is considered a rollover for Roth IRA purposes, it is not an exception to the general rule for distributions from a traditional IRA. Conversion distributions are includable in your gross income subject to these rules and the special rules for conversions explained in chapter 2.

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

No special treatment. In figuring your tax, you cannot use the special averaging or capital gain treatment that applies to lump-sum distributions from qualified employer plans.

Distributions Fully or Partly Taxable

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

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

Partly taxable. If you made nondeductible contributions to any of your traditional IRAs, you have a ***cost basis*** (investment in the contract) equal to the amount of those contributions. These nondeductible contributions are not taxed when they are distributed to you. They are a return of your investment in your IRA.

Only the part of the distribution that represents nondeductible contributions (your cost basis) is tax free. If nondeductible contributions have been made, distributions consist partly of nondeductible contributions (basis) and partly of deductible contributions, earnings, and gains (if there are any). Until all of your basis has been distributed, each distribution is partly nontaxable and partly taxable.

Form 8606. You must complete Form 8606, and attach it to your return, if you receive a distribution from a traditional IRA and have ever made nondeductible contributions to any of your traditional IRAs. Using the form, you will figure the nontaxable distributions for 1999, and your total IRA basis for 1999 and earlier years. See the illustrated Forms 8606 in *Appendix D.*

Note. 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. Complete Form 8606, sign it, and send it to the IRS at the time and place you would otherwise file an income tax return.

Figuring the Nontaxable and Taxable Amounts

If your traditional IRA includes nondeductible contributions and you received a distribution from it in 1999, you must use Form 8606 to figure how much of your 1999 IRA distribution is tax free.

Contribution and distribution in the same year. If you received a distribution in 1999 from a traditional IRA and you also made contributions to a traditional IRA for 1999 that may not be fully deductible because of the income limits, you can use the following worksheet to figure how much of your 1999 IRA distribution is tax free and how much is taxable. Then you can figure the amount of nondeductible contributions to report on Form 8606. Use the related instructions, under *Reporting your nontaxable distribution on Form 8606,* later, to figure your remaining basis after the distribution.

Using the worksheet. Form 8606 and the related instructions may be helpful when using this worksheet.

When used in the following worksheet the term ***outstanding rollover*** refers to an amount distributed from a traditional IRA as part of a rollover that, as of December 31, 1999, had not yet been reinvested into another traditional IRA.

Form **8606**

Department of the Treasury
Internal Revenue Service

Nondeductible IRAs

▶ See separate instructions.

▶ Attach to Form 1040, Form 1040A, or Form 1040NR.

OMB No. 1545-1007

1999

Attachment Sequence No. 48

Name. If married, file a separate form for each spouse required to file Form 8606. See page 4 of the instructions.	Your social security number
Rose Green	001 00 0000

Fill in Your Address Only if You Are Filing This Form by Itself and Not With Your Tax Return

Home address (number and street, or P.O. box if mail is not delivered to your home)	Apt. no.
City, town or post office, state, and ZIP code	

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

Complete Part I if:

- You made nondeductible contributions to a traditional IRA for 1999,
- You received distributions from a traditional IRA in 1999 **and** you made nondeductible contributions to a traditional IRA in 1999 or an earlier year, **or**
- You converted part, but not all, of your traditional IRAs to Roth IRAs during 1999 **and** you made nondeductible contributions to a traditional IRA in an earlier year. See the instructions for lines 8 and 11 for special computations.

Line	Description			Line	Amount
1	Enter your nondeductible contributions to traditional IRAs for 1999, including those made for 1999 from January 1, 2000, through April 17, 2000. See page 4			1	500
2	Enter your total IRA basis for 1998 and earlier years. See page 4			2	300
3	Add lines 1 and 2			3	800
	Did you receive any distributions (withdrawals) from traditional IRAs in 1999? **No** ▶ Enter the amount from line 3 on line 12. Do not complete the rest of Part I. **Yes** ▶ Go to line 4.				
4	Enter only those contributions included on line 1 that were made from January 1, 2000, through April 17, 2000. See page 5			4	0
5	Subtract line 4 from line 3			5	800
6	Enter the total value of **ALL** your traditional IRAs as of December 31, 1999, plus any outstanding rollovers. See page 5		6		
7	Enter the total distributions you received from traditional IRAs during 1999. Do not include amounts rolled over. See page 5		7		
8	Add lines 6 and 7. (But if you converted part, but not all, of your traditional IRAs to Roth IRAs in 1999, see page 5 for the amount to enter.)	8			
9	Divide line 5 by line 8 and enter the result as a decimal (rounded to at least 3 places). Do not enter more than "1.000"		9 × .		
10	Multiply line 7 by line 9. This is the amount of your nontaxable distributions for 1999			10	460 *
11	Subtract line 10 from line 5. (But if you converted part, but not all, of your traditional IRAs to Roth IRAs in 1999, see page 5 for the amount to enter.) This is your basis in traditional IRA(s) as of December 31, 1999			11	340
12	Add lines 4 and 11. This is your **total basis in traditional IRAs for 1999 and earlier years**			12	340
13	**Taxable distributions from traditional IRAs.** Subtract line 10 from line 7. Enter the result here and also include it in the total on Form 1040, line 15b; Form 1040A, line 10b; or Form 1040NR, line 16b			13	0 *

Part II 1999 Conversions From Traditional IRAs to Roth IRAs

Caution: *If your modified adjusted gross income is over $100,000,* ***or*** *you are married filing separately and you lived with your spouse at any time in 1999, you* ***cannot*** *convert any amount from traditional IRAs to Roth IRAs for 1999. If you erroneously made a conversion, you must recharacterize (correct) the conversion. See page 5 for details.*

Line	Description	Line	Amount
14a	Enter the total amount that you converted from traditional IRAs to Roth IRAs in 1999	14a	5,000
b	Recharacterizations. (These are corrections of amounts converted from traditional IRAs to Roth IRAs in 1999.) See page 3	14b	
c	Subtract line 14b from line 14a. This is the net amount you converted to Roth IRAs in 1999	14c	5,000
15	Enter your basis in the amount you entered on line 14c. See page 6	15	
16	**Taxable amount of conversions.** Subtract line 15 from line 14c. Enter the result here and also include it in the total on Form 1040, line 15b; Form 1040A, line 10b; or Form 1040NR, line 16b	16	4,540 *

For Paperwork Reduction Act Notice, see page 8. Cat. No. 63966F Form **8606** (1999)

* From Worksheet in Publication 590

Proof as of November 9, 1999 (Subject to change)

Worksheet To Figure Taxable Part of Distribution

Use only if you made contributions to a traditional IRA for 1999 and have to figure the taxable part of your 1999 distributions to determine your modified AGI. See *How Much Can I Deduct?,* earlier.

1) Enter the basis in your traditional IRA(s) as of 12/31/98 .... $______
2) Enter the total of all contributions made to your traditional IRAs during 1999 and all contributions made during 2000 that were for 1999, **whether or not deductible.** Do not include rollover contributions properly rolled over into IRAs .... $______
3) Add lines 1 and 2 .... $______
4) Enter the value of ALL your traditional IRA(s) as of 12/31/99 (include any outstanding rollovers from traditional IRAs to other traditional IRAs) .... $______
5) Enter the total distributions from traditional IRAs (including amounts converted to Roth IRAs that will be shown on line 14c of Form 8606) received in 1999. (Do not include outstanding rollovers included on line 4 or any rollovers between traditional IRAs completed by 12/31/99. Also, do not include certain returned contributions described in the instructions for line 7, Part I, of Form 8606.) .... $______
6) Add lines 4 and 5 .... $______
7) Divide line 3 by line 6. Enter the result as a decimal (to at least two places). Do not enter more than 1.00 . ______
8) **Nontaxable portion** of the distribution. Multiply line 5 by line 7. Enter the result here and on line 10 of Form 8606 .... $______
9) **Taxable portion of the distribution (before adjustment for conversions).** Subtract line 8 from line 5. Enter the result here and if there are no amounts converted to Roth IRAs, **STOP HERE** and enter the result on line 13 of Form 8606 .... $______
10) Enter the amount included on line 9 that is allocable to amounts converted to Roth IRAs by 12/31/99. (See **footnote 1** at the end of this worksheet.) Enter here and on line 16 of Form 8606. .... $______
11) **Taxable portion of the distribution (after adjustment for conversions).** Subtract line 10 from line 9. Enter the result here and on line 13 of Form 8606 .... $______

1 — If the amount on line 5 of this worksheet includes an amount converted to a Roth IRA by 12/31/99, you must determine the percentage of the distribution allocable to the conversion. To figure the percentage, divide the amount converted (from line 14c of Form 8606) by the total distributions shown on line 5. To figure the amounts to include on line 10 of this worksheet and on line 16, Part II of Form 8606, multiply line 9 of the worksheet by the percentage you figured.

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

1) Use the worksheet in the Form 1040 or 1040A instructions to figure your deductible contributions to traditional IRAs to report on line 23 of Form 1040 or line 15 of Form 1040A.

2) After you complete the worksheet in the form instructions, enter your nondeductible contributions to traditional IRAs on line 1 of Form 8606.

3) Complete lines 2 through 5 of Form 8606.

4) If line 5 of Form 8606 is less than line 8 of the above worksheet, complete lines 6 through 13 of Form 8606 and **STOP HERE.**

5) If line 5 of Form 8606 is equal to or greater than line 8 of the above worksheet, follow instructions 6 and 7, next. **Do not complete lines 6 through 9 of Form 8606.**

6) Enter the amount from line 8 of the above worksheet on line 10 of Form 8606.

7) Complete lines 11 and 12 of Form 8606.

8) Enter the amount from line 9 of the above worksheet (or, if you entered an amount on line 11, the amount from that line) on line 13 of Form 8606.

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

Year	Deductible	Nondeductible
1992	$2,000	–0–
1993	2,000	–0–
1994	2,000	–0–
1995	1,000	–0–
1996	1,000	–0–
1997	1,000	–0–
1998	700	$ 300
Totals	$9,700	$ 300

In 1999, Rose, whose IRA deduction for that year may be reduced or eliminated, makes a $2,000 contribution that may be partly nondeductible. She also withdraws $5,000 for conversion to a Roth IRA. She completed the conversion before 12/31/99 and did not recharacterize any contributions. At the end of 1999, the fair market values of her accounts, including earnings, total $20,000. She did not have any tax-free withdrawals in earlier years. The amount she includes in income for 1999 is figured as follows:

Worksheet To Figure Taxable Part of Distribution

Use only if you made contributions to a traditional IRA for 1999 and have to figure the taxable part of your 1999 distributions to determine your modified AGI. See *How Much Can I Deduct?,* earlier.

1) Enter the basis in your traditional IRA(s) as of 12/31/98 .... $ 300
2) Enter the total of all contributions made to your traditional IRAs during 1999 and all contributions made during 2000 that were for 1999, **whether or not deductible.** Do not include rollover contributions properly rolled over into IRAs .... $ 2,000
3) Add lines 1 and 2 .... $ 2,300
4) Enter the value of ALL your traditional IRA(s) as of 12/31/99 (include any outstanding rollovers from traditional IRAs to other traditional IRAs) .... $ 20,000
5) Enter the total distributions from traditional IRAs (including amounts converted to Roth IRAs that will be shown on line 14c of Form 8606) received in 1999. (Do not include outstanding rollovers included on line 4 or any rollovers between traditional IRAs completed by 12/31/99. Also, do not include certain returned contributions described in the instructions for line 7, Part I, of Form 8606.) .... $ 5,000
6) Add lines 4 and 5 .... $ 25,000
7) Divide line 3 by line 6. Enter the result as a decimal (to at least two places). Do not enter more than 1.00 . .092
8) **Nontaxable portion** of the distribution. Multiply line 5 by line 7. Enter the result here and on line 10 of Form 8606 .... $ 460
9) **Taxable portion of the distribution (before adjustment for conversions).** Subtract line 8 from line 5. Enter the result here and if there are no amounts converted to Roth IRAs, **STOP HERE** and enter the result on line 13 of Form 8606 .... $ 4,540

10) Enter the amount included on line 9 that is allocable to amounts converted to Roth IRAs by 12/31/99. (See **footnote 1** at the end of this worksheet.) Enter here and on line 16 of Form 8606. .... $ 4,540

11) **Taxable portion of the distribution (after adjustment for conversions).** Subtract line 10 from line 9. Enter the result here and on line 13 of Form 8606 .... $ –0–

1 — If the amount on line 5 of this worksheet includes an amount converted to a Roth IRA by 12/31/99, you must determine the percentage of the distribution allocable to the conversion. To figure the percentage, divide the amount converted (from line 14c of Form 8606) by the total distributions shown on line 5. To figure the amounts to include on line 10 of this worksheet and on line 16, Part II of Form 8606, multiply line 9 of the worksheet by the percentage you figured.

The Form 8606 for Rose, illustrated earlier, shows the information required when you need to use the above worksheet to figure your nontaxable distribution. Assume that the amount used on line 1 of Form 8606 is the amount Rose figured using instructions 1 and 2 given earlier under *Reporting your nontaxable distribution on Form 8606.*

Recognizing Losses on IRA Investments

If you have a loss on your traditional IRA investment, you can recognize the loss on your income tax return, but only when all the amounts in all your traditional IRA accounts have been distributed to you and the total distributions are less than your unrecovered basis, if any. Your basis is the total amount of the nondeductible contributions in your traditional IRAs. You claim the loss as a miscellaneous itemized deduction, subject to the 2% limit, on Schedule A, Form 1040.

Example. Bill King has made nondeductible contributions to a traditional IRA totaling $2,000, giving him a basis at the end of 1998 of $2,000. By the end of 1999, his IRA earns $400 in interest income. In that year, Bill withdraws $600 ($500 basis + $100 interest), reducing the value of his IRA to $1,800 ($2,000 + 400 − 600) at year's end. Bill figures the taxable part of the distribution and his remaining basis on Form 8606 (illustrated in *Appendix D*).

In 2000, Bill's IRA has a ***loss*** of $500. At the end of that year, Bill's IRA balance is $1,300 ($1,800 − 500). Bill's remaining basis in his IRA is $1,500 ($2,000 − 500). Bill withdraws the $1,300 balance remaining in the IRA. He can claim a loss for 2000 of $200 (the $1,500 basis minus the $1,300 withdrawn IRA balance). Bill completes Form 8606 as illustrated in *Appendix D*.

Inherited IRAs

The beneficiaries of your traditional IRA must include in their gross income any distributions they receive.

Beneficiaries. Your beneficiaries can include your estate, your dependents, and anyone you choose to receive the benefits of your IRA after you die.

Spouse. If you inherit an interest in a traditional IRA from your spouse, you can elect to treat the entire inherited interest as your own IRA as discussed under *Inherited IRAs,* earlier. Also see the discussion earlier under *When Must I Withdraw IRA Assets? (Required Distributions)* for the rules on when you must begin to make withdrawals from the IRA.

Beneficiary other than spouse. If you inherit a traditional IRA from someone other than your spouse, you cannot treat it as your own IRA. You cannot roll over any part of it or roll any amount over into it. You cannot make any contributions to an inherited traditional IRA.

IRA with basis. If you inherit a traditional IRA from a person who had a basis in the IRA because of nondeductible contributions, that basis remains with the IRA. Unless you are the decedent's spouse and choose to treat the IRA as your own, you cannot combine this basis with any basis you have in your own traditional IRA(s) or any basis in traditional IRA(s) you inherited from other decedents. If you take a distribution from an inherited IRA and your IRA, and each has basis, you must complete separate Forms 8606 to determine the taxable and nontaxable portions of those distributions.

Federal estate tax deduction. Your beneficiary may be able to claim a deduction for estate tax resulting from certain distributions from your traditional IRA after you die. The beneficiary can deduct the estate tax paid on any part of a distribution that is income in respect of a decedent. He or she can take the deduction for the tax year the income is reported. For information on claiming this deduction, see *Other Tax Information* in Publication 559, *Survivors, Executors, and Administrators.*

Any taxable part of a distribution that is not income in respect of a decedent is a payment the beneficiary must include in income. However, the beneficiary cannot take any estate tax deduction for this part.

A surviving spouse can roll over the distribution to another traditional IRA and avoid including it in income for the year received.

Other Special IRA Distribution Situations

Two other special IRA distribution situations are discussed below.

Distribution of an annuity contract from your IRA account. You can tell the trustee or custodian of your traditional IRA account to use the amount in the account to buy an annuity contract for you. You are not taxed when you receive the annuity contract. You are taxed when you start receiving payments under that annuity contract.

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

If any of your traditional IRAs include both deductible and nondeductible contributions, the annuity payments are taxed as explained earlier under *Distributions Fully or Partly Taxable.*

Cashing in retirement bonds. When you cash in retirement bonds, you are taxed on the entire amount you receive. If you do not cash in your bonds before the end of the year in which you reach age 70½, you will be taxed on the entire value of the bonds at that time. Bond value is the amount you would have received if

Form 1040

Income				
Attach Copy B of your Forms W-2 and W-2G here. Also attach Form(s) 1099-R if tax was withheld.	7	Wages, salaries, tips, etc. Attach Form(s) W-2	7	
	8a	**Taxable** interest. Attach Schedule B if required	8a	
	b	**Tax-exempt** interest. DO NOT include on line 8a . . . 8b		
	9	Ordinary dividends. Attach Schedule B if required	9	
	10	Taxable refunds, credits, or offsets of state and local income taxes (see page 21)	10	
	11	Alimony received	11	
	12	Business income or (loss). Attach Schedule C or C-EZ	12	
	13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐	13	
If you did not get a W-2, see page 20.	14	Other gains or (losses). Attach Form 4797	14	
	15a	Total IRA distributions . 15a / **b** Taxable amount (see page 22)	15b	
	16a	Total pensions and annuities 16a / **b** Taxable amount (see page 22)	16b	
	17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	
Enclose, but do not staple, any payment. Also, please use **Form 1040-V.**	18	Farm income or (loss). Attach Schedule F	18	
	19	Unemployment compensation	19	
	20a	Social security benefits . 20a / **b** Taxable amount (see page 24)	20b	
	21	Other income. List type and amount (see page 24)	21	
	22	Add the amounts in the far right column for lines 7 through 21. This is your **total income** ▶	22	

Form 1040A

Income				
Attach Copy B of your Form(s) W-2 here. Also attach Form(s) 1099-R if tax was withheld.	7	Wages, salaries, tips, etc. Attach Form(s) W-2.	7	
	8a	**Taxable** interest. Attach Schedule 1 if required.	8a	
	b	**Tax-exempt** interest. DO NOT include on line 8a. 8b		
	9	Ordinary dividends. Attach Schedule 1 if required.	9	
If you did not get a W-2, see page 25.	10a	Total IRA distributions. 10a / **10b** Taxable amount (see page 25).	10b	
	11a	Total pensions and annuities. 11a / **11b** Taxable amount (see page 26).	11b	
Enclose, but do not staple, any payment.	12	Unemployment compensation, qualified state tuition program earnings, and Alaska Permanent Fund dividends.	12	
	13a	Social security benefits. 13a / **13b** Taxable amount (see page 28).	13b	
	14	Add lines 7 through 13b (far right column). This is your **total income.** ▶	14	

you had cashed in the bonds at that time. When the bonds are cashed later, you will not be taxed again.

Reporting and Withholding Requirements for Taxable Amounts

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

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

1—Early (premature) distribution, no known exception.

2—Early (premature) distribution, exception applies.

3—Disability.

4—Death.

5—Prohibited transaction.

7—Normal distribution.

8—Excess contributions plus earnings/ excess deferrals (and/or earnings) taxable in 1999.

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

D—Excess contributions plus earnings/ excess deferrals taxable in 1997.

G—Direct rollover to IRA.

H—Direct rollover to qualified plan or tax-sheltered annuity or a transfer from a conduit IRA to a qualified plan.

J—Distribution from a Roth IRA.

M—Distribution from an education IRA.

P—Excess contributions plus earnings/ excess deferrals taxable in 1998.

R—Recharacterized IRA contribution.

S—Early distributions from a SIMPLE IRA in first 2 years, no known exception.

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

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

The amount of tax withheld from an annuity or a similar periodic payment is based on your marital status and the number of withholding allowances you claim on your withholding certificate (Form W–4P). If you have not filed a certificate, tax will be withheld as if you are a married individual claiming three withholding allowances.

Generally, tax will be withheld at a 10% rate on a nonperiodic distribution.

IRA distributions delivered outside the United States. In general, if you are a U.S. citizen or resident alien and your home address is outside the United States or its possessions, you cannot choose exemption from withholding on distributions from your traditional IRA.

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

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

More information. For more information, see *Pensions and Annuities* in chapter 1 of Publication 505. See also Publication 515, *Withholding of Tax on Nonresident Aliens and Foreign Corporations.*

Reporting taxable distributions on your return. Report fully taxable distributions, including premature distributions, on line 15b, Form 1040 (no entry is required on line 15a), or line 10b, Form 1040A. If only part of the distribution is taxable, enter the total amount on line 15a, Form 1040 (or line 10a, Form 1040A), and the taxable part on line 15b (or 10b). You cannot report distributions on Form 1040EZ.

Estate tax. Generally, the value of an annuity or other payment receivable by any beneficiary of a decedent's traditional IRA that represents the part of the purchase price contributed by the decedent (or by his or her former employer(s)), must be included in the decedent's gross estate. For more information, see the instructions for Schedules I and S, Form 706, *United States Estate (and Generation-Skipping Transfer) Tax Return.*

What Acts Result in Penalties?

The tax advantages of using traditional IRAs for retirement savings can be offset by additional taxes and penalties if you do not follow the rules. For example, there are additions to the regular tax for using your IRA funds in prohibited transactions. There are also additional taxes for the following activities.

- Investing in collectibles.
- Making excess contributions.
- Making early withdrawals (taking premature distributions).
- Allowing excess amounts to accumulate (failing to make required withdrawals).

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

This chapter discusses those acts that you should avoid and the additional taxes and other costs, including loss of IRA status, that apply if you do not avoid those acts.

Prohibited Transactions

Generally, a prohibited transaction is any improper use of your traditional IRA account or annuity by you, your beneficiary, or any disqualified person.

Examples of disqualified persons include your fiduciary and members of your family (spouse, ancestor, lineal descendant, and any spouse of a lineal descendant).

The following are examples of prohibited transactions with a traditional IRA.

- Borrowing money from it.
- Selling property to it.
- Receiving unreasonable compensation for managing it.
- Using it as security for a loan.
- Buying property for personal use (present or future) with IRA funds.

Fiduciary. For these purposes, a fiduciary includes anyone who does ***any*** of the following.

- Exercises any discretionary authority or discretionary control in managing your IRA or exercises any authority or control in managing or disposing of its assets.
- Charges to provide investment advice with respect to your IRA, or has any authority or responsibility to do so.
- Has any discretionary authority or discretionary responsibility in administering your IRA.

Effect on an IRA account. Generally, if you or your beneficiary engage in a prohibited transaction in connection with your traditional IRA account at any time during the year, the account stops being an IRA as of the first day of the year.

Effect on you or your beneficiary. If you or your beneficiary engage in a prohibited transaction in connection with your traditional IRA account at any time during the year, you (or your beneficiary) must include the fair market value of all or part, in certain cases of the IRA assets in your gross income for that year. The fair market value is the price at which the IRA assets would change hands between a willing buyer and a willing seller, when neither has any need to buy or sell, and both have reasonable knowledge of the relevant facts.

You must use the fair market value of the assets as of the first day of the year you engaged in the prohibited transaction. You may have to pay the 10% tax on premature distributions, discussed later.

Borrowing on an annuity contract. If you borrow money against your traditional IRA annuity contract, you must include in your gross income the fair market value of the annuity contract as of the first day of your tax year. You may have to pay the 10% additional tax on premature distributions, discussed later.

Pledging an account as security. If you use a part of your traditional IRA account as security for a loan, that part is treated as a distribution and is included in your gross income. You may have to pay the 10% additional tax on premature distributions, discussed later.

Trust account set up by an employer or an employee association. Your account or annuity does not lose its IRA treatment if your employer or the employee association with whom you have your traditional IRA engages in a prohibited transaction.

Owner participation. If you participate in the prohibited transaction with your employer or the association, your account is no longer treated as an IRA.

Taxes on prohibited transactions. If someone other than the owner or beneficiary of a traditional IRA engages in a prohibited transaction, that person may be liable for certain taxes. In general, there is a 15% tax on the amount of the prohibited transaction and a 100% additional tax if the transaction is not corrected.

Loss of IRA status. If the traditional IRA ceases to be an IRA because of a prohibited transaction by you or your beneficiary, you or your beneficiary are not liable for these excise taxes. However, you or your beneficiary may have to pay other taxes as discussed under *Effect on you or your beneficiary*, earlier.

Exemptions

Exemption from prohibited transaction penalties have been granted for the following two transactions, if they meet the requirements listed later under *Payments of cash, property, or other consideration* and *Services received at reduced or no cost.*

- Payments of cash, property, or other consideration by the sponsor of your traditional IRA to you (or members of the your family).
- Your receipt of services at reduced or no cost from the bank where your traditional IRA is established or maintained.

Payments of cash, property, or other consideration. All of the following requirements must be satisfied for this to apply.

1) The payments must be for establishing a traditional IRA or for making additional contributions to it.
2) The IRA must be established solely to benefit you, your spouse, and beneficiaries (yours and your spouse's).
3) During the year, the total fair market value of the payments you receive cannot be more than:
   a) $10 for IRA deposits of less than $5,000, or
   b) $20 for IRA deposits of $5,000 or more.
4) If the consideration is group term life insurance, then requirements (a) and (b) do not apply if no more than $5,000 of the face value of the insurance is based on a dollar-for-dollar basis on the assets in your IRA.

Services received at reduced or no cost. All of the following conditions must be satisfied for this exemption to apply.

1) The traditional IRA qualifying you to receive the services must be established and maintained for the benefit of you, your spouse, or beneficiaries (yours and your spouse's).
2) The services must be services the bank itself can legally offer.
3) The services must be provided in the ordinary course of business by the bank (or a bank affiliate) to customers who qualify but do not maintain an IRA (or a Keogh plan).
4) For a traditional IRA, the determination of who qualifies for these services must be based on an IRA (or a Keogh plan) deposit balance equal to the lowest qualifying balance for any other type of account.
5) The rate of return on a traditional IRA investment that qualifies cannot be less than the return on an identical investment that could have been made at the same time at the same branch of the bank by a customer who is not eligible for (or does not receive) these services.

Investment in Collectibles

If your traditional IRA invests in collectibles, the amount invested is considered distributed to you in the year invested. You may have to pay the 10% tax on premature distributions, discussed later.

Collectibles. These include art works, rugs, antiques, metals, gems, stamps, coins, alcoholic beverages, and certain other tangible personal property.

Exception. Your IRA can invest in one, one-half, one-quarter, or one-tenth ounce U.S. gold coins, or one-ounce silver coins minted by the Treasury Department. It can also invest in certain platinum coins and certain gold, silver, palladium, and platinum bullion.

Excess Contributions

Generally, an excess contribution is the amount contributed to your traditional IRAs that is more than the smaller of the following amounts:

1) Your taxable compensation for the year, or
2) $2,000.

The taxable compensation limit applies whether your contributions are deductible or nondeductible.

Contributions for the year you reach age 70½ and any later year are also excess contributions.

An excess contribution could be the result of your contribution, your spouse's contribution, your employer's contribution, or an improper rollover contribution. If your employer makes contributions on your behalf to a SEP-IRA, see chapter 4, later.

Tax on Excess Contributions

In general, if the excess contribution for a year and any earnings on it are not withdrawn by the date your return for the year is due (including extensions), you are subject to a 6% tax. You must pay the 6% tax each year on excess amounts that remain in your traditional IRA at the end of your tax year. The tax cannot be more than 6% of the value of your IRA as of the end of your tax year.

The excise tax is figured on Form 5329. For information on filing Form 5329, see *Reporting Additional Taxes,* later.

Example. For 1999, Paul Jones is single, his compensation is $31,000, and he contributed $2,500 to his IRA. Paul has made an excess contribution to his IRA of $500 ($2,500 minus the $2,000 limit). The contribution earned $5 interest in 1999 and $6 interest in 2000 before the due date of the return, including extensions. He does not withdraw the $500 or the interest it earned by the due date of his return, including extensions.

Paul figures his excess contribution tax for 1999 by multiplying the excess contribution ($500) shown on line 16, Form 5329, by .06, giving him an additional tax liability of $30. He enters the tax on line 17, Form 5329, and on line 53, Form 1040. See Paul's filled-in Form 5329 in *Appendix C*, later.

Excess Contributions Withdrawn by Due Date of Return

You will not have to pay the 6% tax if you withdraw an excess contribution made during a tax year ***and*** you also withdraw any interest or other income earned on the excess contribution. You must complete your withdrawal by the date your tax return for that year is due, including extensions.

How to treat withdrawn contributions. Do not include in your gross income an excess contribution that you withdraw from your traditional IRA before your tax return is due if ***both*** of the following conditions are met.

1) No deduction was allowed for the excess contribution.
2) You withdraw the interest or other income earned on the excess contribution.

How to treat withdrawn interest or other income. You must include in your gross income the interest or other income that was earned on the excess contribution. Report it on your return for the year in which the excess contribution was made. Your withdrawal of interest or other income may be subject to an additional 10% tax on early withdrawals, discussed later.

Form 1099–R. You will receive Form 1099–R indicating the amount of the withdrawal. If the excess contribution was made in a previous tax year, the form will indicate the year in which the earnings are taxable.

Excess Contributions Withdrawn After Due Date of Return

In general, you must include all withdrawals from your traditional IRA in your gross income. However, if the total contributions (other than rollover contributions) for the year to your IRA are $2,000 or less and there are no employer contributions for the year, you can withdraw any excess contribution after the due date for filing your tax return for that year, including extensions, and not include the amount withdrawn in your gross income. This applies only to the part of the excess for which you did not take a deduction.

Excess contribution deducted in an earlier year. If you deducted an excess contribution in an earlier year for which the total contributions were $2,000 ($2,250 for 1996 and earlier) or less and for which there were no employer contributions, you can still remove the excess from your traditional IRA and not include it in your gross income. To do this, file Form 1040X, *Amended U.S. Individual Income Tax Return,* for that year and do not deduct the excess contribution on the amended return. Generally, you can file an amended return within 3 years after you filed your return, or 2 years from the time the tax was paid, whichever is later.

Excess due to incorrect rollover information. If an excess contribution in your traditional IRA is the result of a rollover and the excess occurred because the information the plan was required to give you was incorrect, you can withdraw the excess contribution. The limits, mentioned above, are increased by the amount of the excess that is due to the incorrect information. You will have to amend your return for the year in which the excess occurred to correct the reporting of the rollover amounts in that year. Do not include in your gross income the part of the excess contribution caused by the incorrect information.

Deducting an Excess Contribution in a Later Year

You cannot apply an excess contribution to an earlier year even if you contributed less than the maximum amount allowable for the earlier year. However, you may be able to apply it to a later year if the contributions for that later year are less than the maximum allowed for that year.

You can deduct excess contributions for previous years that are still in your traditional IRA. The amount you can deduct is the excess contribution up to the maximum amount deductible for the current year minus any amounts contributed to the IRA for the current year.

This method lets you avoid making a withdrawal. It does not, however, let you avoid the 6% tax on any excess contributions remaining at the end of a tax year.

Example. Terry was entitled to contribute to her traditional IRA and deduct $1,000 in 1998 and $1,500 in 1999 (the amounts of her taxable compensation for these years). For 1998, she actually contributed $1,400 but could deduct only $1,000. In 1998, $400 is an excess contribution subject to the 6% tax. However, she would not have to pay the 6% tax if she withdrew the excess (including any earnings) before the due date of her 1998 return. Since Terry did not withdraw the excess, she owes excise tax of $24 for 1998. To avoid the excise tax for 1999, she can correct the $400 excess amount from 1998 in 1999 if her actual contributions are only $1,100 for 1999 (the allowable deductible contribution of $1,500 minus the $400 excess from 1998 she wants to treat as a deductible contribution in 1999). Terry can deduct $1,500 in 1999 (the $1,100 actually contributed plus the $400 excess contribution from 1998).

Closed tax year. A special rule applies if you incorrectly deducted part of the excess contribution in a closed tax year (one for which the period to assess a tax deficiency has expired). The amount allowable as a traditional IRA deduction for a later correction year (the year you contribute less than the allowable amount) must be reduced by the amount of the excess contribution deducted in the closed year.

Premature Distributions (Early Withdrawals)

You must include premature distributions of taxable amounts from your traditional IRA in your gross income. Premature distributions (sometimes called early withdrawals or early distributions) are also subject to an additional 10% tax, as discussed later.

Premature distributions defined. Premature distributions are amounts you withdraw from your traditional IRA account or annuity before you are age 59½, or amounts you receive when you cash in retirement bonds before you are age 59½.

Exceptions. There are several exceptions to the age 59½ rule. You may qualify for an exception if you are in one of the following situations.

- You have ***unreimbursed medical expenses*** that are more than 7.5% of your adjusted gross income.
- The distributions are not more than the cost of your ***medical insurance***.
- You are ***disabled***.
- You are the ***beneficiary*** of a deceased IRA owner.
- You are receiving distributions in the form of an ***annuity***.
- The distributions are not more than your qualified ***higher education expenses***.
- You use the distributions to buy, build, or rebuild a ***first home***.
- The distribution is of ***contributions returned before the due date*** of your tax return.
- The distribution is due to an ***IRS levy*** of the qualified plan.

Most of these exceptions are explained earlier at *Exceptions* under *Age 59½ Rule.*

Note. Distributions that are timely and properly rolled over, as discussed earlier, are not subject to either regular income tax or the 10% additional tax. Certain withdrawals of excess contributions after the due date of your return are also tax free and not subject to the 10% additional tax (see *Excess Contributions Withdrawn After Due Date of Return,* earlier). This also applies to transfers incident to divorce, as discussed under *Can I Move Retirement Plan Assets?*, earlier.

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

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

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

Example. Tom Jones, who is 35 years old, makes a $3,000 withdrawal from his traditional IRA account. Tom does not meet any of the exceptions to the age 59½ rule, so the $3,000 is a premature distribution. Tom never made any nondeductible contributions to his IRA. He must include the $3,000 in his gross income for the year of the withdrawal and pay income tax on it. Tom must also pay an additional tax of $300 (10% × $3,000). He chooses to file Form 5329. See the filled-in Form 5329 in *Appendix C.*

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

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

Excess Accumulations (Insufficient Distributions)

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

Tax on excess. If distributions are less than the required minimum distribution for the year, discussed earlier under *When Must I Withdraw IRA Assets?,* you may have to pay a 50% excise tax for that year on the amount not distributed as required.

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

Request to excuse the tax. If the excess accumulation is due to reasonable error, and you have taken, or are taking, steps to remedy the insufficient distribution, you can request that the tax be excused.

How to file the request. File Form 5329 with your Form 1040 and pay any tax you owe on excess accumulations. Attach an explanation for the excess accumulation and show when you removed the excess or what you have done that will result in its withdrawal.

If the IRS approves your request, it will refund the excess accumulations tax you paid.

Exemption from tax. If you are unable to make required distributions because you have a traditional IRA invested in a contract issued by an insurance company that is in state insurer delinquency proceedings, the 50% excise tax does not apply if the conditions and requirements of Revenue Procedure 92–10 are satisfied. Those conditions and requirements are summarized below. You can read the full text of the revenue procedure at most IRS offices and at many public libraries. Revenue Procedure 92–10 is in Cumulative Bulletin 1992–1.

Conditions. To qualify for exemption from the tax, the assets in your traditional IRA must include an affected investment. Also, the amount of your required distribution must be determined as discussed earlier.

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

Requirements. If your traditional IRA (or IRAs) includes other assets in addition to your affected investment, all traditional IRA assets, including the available portion of your affected investment, must be used to satisfy as much as possible your IRA distribution requirement. If the affected investment is the only asset in your IRA, as much as possible of the required distribution must come from the available portion, if any, of your affected investment.

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

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

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

Reporting Additional Taxes

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

Filing Form 1040. If you file Form 1040, complete Form 5329 and attach it to your Form 1040. Enter the total amount of IRA tax due on line 53, Form 1040.

Note. If you have to file an individual income tax return and Form 5329, you must use Form 1040.

Not filing Form 1040. If you do not have to file a Form 1040 but do have to pay one of the IRA taxes mentioned earlier, file the completed Form 5329 with IRS at the time and place you would have filed Form 1040. Be sure to include your address on page 1 and your signature and date on page 2. Enclose, but do not attach a check or money order payable to the United States Treasury for the tax you owe, as shown on Form 5329. Write your social security number and "1999 Form 5329" on your check or money order.

Form 5329 not required. You do not have to use Form 5329 if any of the following conditions exist.

- Distribution code 1 (early distribution) is shown in box 7 of Form 1099–R. Instead, multiply the taxable part of the early distribution by 10% and enter the result on line 53 of Form 1040. Write "No" next to line 53 to indicate that you do not have to file Form 5329. ***However,*** if you owe this tax and also owe any other additional tax on a distribution, do not enter this 10% additional tax directly on your Form 1040. You must file Form 5329 to report your additional taxes.
- You qualify for an exception to the premature distributions tax. You need not report the exception if distribution code 2, 3, or 4 is shown in box 7 of Form 1099–R. ***However,*** if one of those codes is not shown, or the code shown is incorrect, you must file Form 5329 to report the exception.
- You properly rolled over all distributions you received during the year.

Table 2.1 **You Can Contribute to a Roth IRA**

IF you have taxable compensation and your filing status is . . .	AND your modified AGI is less than . . .
Married filing jointly	$160,000
Married filing separately—and you lived with your spouse during the year	$ 10,000
Single, head of household, or married filing separately—and you did not live with your spouse at any time during the year	$110,000

2. Roth IRAs

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

TIP *You can make contributions for 1999 by the due date (not including extensions) for filing your 1999 tax return. This means that most people can make contributions for 1999 by April 17, 2000.*

What is a Roth IRA?

A Roth IRA is an individual retirement plan that, except as explained in this chapter, is subject to the rules that apply to a traditional IRA (defined below). It can be either an account or an annuity. Individual retirement accounts and annuities are described in chapter 1 under *When and How Can a Traditional IRA Be Set Up?*.

To be a Roth IRA, the account or annuity must be designated as a Roth IRA when it is set up. Neither a SEP-IRA nor a SIMPLE IRA can be designated as a Roth IRA.

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

Traditional IRA. A traditional IRA is any IRA that is not a Roth IRA, SIMPLE IRA, or education IRA. Traditional IRAs are discussed in chapter 1.

Can I Contribute to a Roth IRA?

Generally, you can contribute to a Roth IRA if you have taxable ***compensation*** (defined later) and your ***modified AGI*** (defined later) is less than the amount shown for your filing status in *Table 2.1*.

Is there an age limit for contributions? Contributions can be made to your Roth IRA regardless of your age.

Can I contribute to a Roth IRA for my spouse? You can contribute to a Roth IRA for your spouse provided the contributions satisfy the spousal IRA limit discussed in chapter 1 under *How Much Can Be Contributed?* and your modified AGI is less than the amount shown for your filing status in *Table 2.1*.

Compensation. Compensation includes wages, salaries, tips, professional fees, bonuses, and other amounts received for providing personal services. It also includes commissions, self-employment income, and taxable alimony and separate maintenance payments. For more information, see *What Is Compensation?* in chapter 1.

Modified AGI. Your modified AGI is your adjusted gross income (AGI) as shown on your return modified as follows.

1) ***Subtract*** any income resulting from the conversion of an IRA (other than a Roth IRA) to a Roth IRA (conversion income). Conversions are discussed under *Can I Move Amounts Into a Roth IRA?,* later.
2) ***Add*** the following deductions and exclusions:
   a) Traditional IRA deduction,
   b) Student loan interest deduction,
   c) Foreign earned income exclusion,
   d) Foreign housing exclusion or deduction,
   e) Exclusion of qualified bond interest shown on Form 8815, and
   f) Exclusion of employer-paid adoption expenses shown on Form 8839.

Table 2.2 **Your Contribution Limit is Reduced**

IF your filing status is . . .	AND your modified AGI is between . . .
Married filing a joint return	$150,000 and $160,000
Married filing separately—and you lived with your spouse during the year	$0 and $10,000
Single, head of household, or married filing separately—and you did not live with your spouse at any time during the year	$95,000 and $110,000

If the result is more than the Roth IRA limit and you have other income or loss items, such as social security income or passive activity losses, that are subject to AGI-based phaseouts, you may refigure your AGI solely for the purpose of figuring your modified AGI for Roth IRA purposes. Refigure your AGI without taking any income from conversions into account. (If you receive social security benefits, use *Worksheet 1* in *Appendix B* to refigure your AGI.) Then go to 2 above to refigure your modified AGI.

Conversion income must be taken into account when computing other AGI-based phaseouts and taxable income for the year. You disregard conversion income only for the purpose of figuring your modified AGI for Roth IRA purposes.

How Much Can Be Contributed?

The contribution limit for Roth IRAs depends on whether a contribution is made only to Roth IRAs or to both traditional IRAs and Roth IRAs.

Roth IRAs only. If a contribution is made only to Roth IRAs, the maximum contribution limit is the lesser of $2,000 or your taxable compensation. If your modified AGI is above a certain amount, your contribution limit may be reduced, as explained later under *Contribution limit reduced.*

Roth IRAs and traditional IRAs. If you contribute to both Roth IRAs and traditional IRAs established for your benefit, your contribution limit for Roth IRAs is the lesser of:

1) The maximum contribution limit reduced by all contributions (other than employer contributions under a SEP or SIMPLE IRA plan) for the year to all IRAs other than Roth IRAs, or

2) The maximum contribution limit reduced because your modified AGI is above a certain amount, as explained next.

Simplified employee pensions (SEPs) are discussed in chapter 4. Savings incentive match plans for employees (SIMPLE) are discussed in chapter 5.

Contribution limit reduced. If your modified AGI is above a certain amount, your maximum contribution limit is gradually reduced. Use *Table 2.2* to determine if this reduction applies to you.

Figuring the reduction. If your modified AGI is within the range shown in *Table 2.2* for your filing status, figure your reduced contribution limit as follows.

1) Start with your ***modified AGI***.

2) ***Subtract*** from the amount in *(1):*

   a) $150,000 if filing a joint return,

   b) $–0– if married filing a separate return, and you lived with your spouse at any time during the year, or

   c) $95,000 for all other individuals.

3) ***Divide*** the result in *(2)* by $15,000 ($10,000 if filing a joint return or married filing a separate return).

4) ***Multiply*** the maximum contribution limit (before reduction by this adjustment and before reduction for any contributions to traditional IRAs) by the result in *(3).*

5) ***Subtract*** the result in *(4)* from the maximum contribution limit before this reduction. The result is your reduced contribution limit.

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

Example. You are a single individual with taxable compensation of $113,000. You want to make the maximum allowable contribution to your Roth IRA for 1999. Your modified AGI for 1999 is $100,000. You have not contributed to any traditional IRA, so the maximum contribution limit before the modified AGI reduction is $2,000. Using the 5 steps just described, you figure your reduced Roth IRA contribution of $1,340 as follows.

1) Modified AGI = $100,000

2) Subtract the amount for your filing status from line 1 ($100,000 − $95,000) = $5,000

3) Divide line 2 by the amount for your filing status ($5,000 ÷ $15,000) = .3333

4) Multiply the maximum contribution limit (before adjustment) by line 3 ($2,000 × .3333) = $667

5) Subtract line 4 from the contribution limit (before adjustment) ($2,000 − $667) = ***$1,340***
(This is your reduced Roth IRA contribution limit of $1,333 rounded up to the nearest $10.)

When Can I Make Contributions?

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

What If I Contribute Too Much?

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

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

1) Amounts contributed for the tax year to your Roth IRAs (other than amounts properly and timely rolled over from a Roth IRA or properly converted from a traditional IRA, as described later) that are more than your contribution limit for the year, plus

2) Any excess contributions for the preceding year, reduced by the total of:

   a) Any distributions out of your Roth IRAs for the year, plus

   b) Your contribution limit for the year minus your contributions to all your IRAs (other than education IRAs) for the year.

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

Applying excess contributions. If contributions to your Roth IRA for a year were more than the limit, you can apply the excess contribution in one year to a later year if the contributions for that later year are less than the maximum allowed for that year.

Can I Move Amounts Into a Roth IRA?

You may be able to convert amounts from either a traditional, SEP, or SIMPLE IRA into a Roth IRA. You may be able to recharacterize contributions made to one IRA as having been made directly to a different IRA. You can roll amounts over from one Roth IRA to another Roth IRA.

Conversions

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

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

1) ***Rollover***. You can receive a distribution from a traditional IRA and roll it over (contribute it) to a Roth IRA within 60 days after the distribution.

2) ***Trustee-to-trustee transfer***. You can direct the trustee of the traditional IRA to transfer an amount from the traditional IRA to the trustee of the Roth IRA.

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

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

Converting From Any Traditional IRA

You can convert amounts from a traditional IRA into a Roth IRA if, for the tax year you make the withdrawal from the traditional IRA, ***both*** of the following requirements are met.

1) Your modified AGI (explained earlier) is not more than $100,000.

2) You are not a married individual filing a separate return. (See *Married filing separately exception,* under *Filing status,* in chapter 1.)

Allowable conversions. You can withdraw all or part of the assets from a traditional IRA and reinvest them (within 60 days) in a Roth IRA. If properly (and timely) rolled over, the 10% additional tax on early withdrawals will not apply. You must roll over into the Roth IRA the same property you received from the traditional IRA. You can roll over part of the withdrawal into a Roth IRA and keep the rest of it. The amount you keep will generally be taxable (except for the part that is a return of nondeductible contributions) and may be subject to the 10% tax on early withdrawals. See chapter 1 for more information on withdrawals from traditional IRAs and the tax on early withdrawals.

Periodic distributions. An individual who has started taking substantially equal periodic payments from a traditional IRA can convert the account to a Roth IRA and then continue the periodic payments. The following rules apply.

1) The periodic distributions result in income acceleration to the extent allocable to a 1998 conversion contribution to which the 4-year spread applies.

2) The 10% early withdrawal tax will not apply even if the distributions are not qualified distributions (as long as they are part of a series of substantially equal periodic payments).

Required distributions. Amounts that must be distributed from your traditional IRA for a particular year (including the calendar year in which you reach age 70½) under the required distribution rules (discussed in chapter 1) cannot be converted.

Inherited IRAs. If you inherited a traditional IRA from someone other than your spouse, you cannot convert it to a Roth IRA.

Income. You must include in your gross income amounts that you withdraw from a traditional IRA that you would have to include in income if you had not converted them into a Roth IRA. You do not include in gross income any part of a withdrawal from a traditional IRA that is a return of your basis, as discussed under *Are Distributions Taxable?*, earlier.

How To Treat 1998 Roth IRA Conversions

If you converted amounts from a traditional IRA in 1998 to a Roth IRA, any amount you had to include in income as a result of the withdrawal is generally included ratably over a 4-year period, beginning with 1998. This means you include one quarter of the amount in 1998, one quarter in 1999, one quarter in 2000, and one quarter in 2001. However, see *Withdrawals from Roth IRAs,* later.

Note. You may have elected to include the entire amount in income in 1998. If you did, this discussion does not apply to you.

Change in filing status. A change in filing status or a divorce does not affect the application of the 4-year income spread rule for 1998 conversions. Therefore, if a married Roth IRA owner who made a 1998 conversion and uses the 4-year spread files separately or divorces before the full taxable conversion amount has been included in income, the balance is included in the owner's income over the remaining years in the 4-year period (or in the year for which the remainder is accelerated due to distribution or death).

Withdrawals from Roth IRAs. If you are including the taxable part of a 1998 conversion ratably over the 4-year period and in 1998, 1999 or 2000 you withdraw from the Roth IRA any amount allocable to the taxable part of the conversion, you generally have to include in income both the ratable (one quarter) portion for the year and the part of the withdrawal made during the year that is allocable to the taxable part of the conversion. See *Ordering Rules for Withdrawals,* later, for information on how to determine the amount allocable to the taxable part of the conversion.

For 1999, you generally must include in income the total of the following two amounts.

1) One quarter of the taxable part of the 1998 withdrawal from the traditional IRA that was converted to the Roth IRA.
2) The part of the 1999 withdrawal from the Roth IRA that, under the ordering rules for withdrawals (discussed later), is allocable to the taxable part of the conversion from the traditional IRA to the Roth IRA.

Any amount allocable to the conversion that is included in income in 1998 or 1999 because of a withdrawal from the Roth IRA first reduces the taxable amount that is reportable in 2001. The 2000 amount is reduced next, and, finally, the 1999 amount is reduced. The most that must be included in income for any one year in the 4-year period is the total amount required to be included over all 4 years of the period minus the amounts included in all preceding years in the period.

Example. In January 1998 you converted $20,000 to a Roth IRA from a traditional IRA in which you had no basis. In December 1998 you made a $12,000 withdrawal from your Roth IRA. You completed Part II of Form 8606 for 1998 showing a $20,000 taxable conversion on line 16. You spread the taxable amount over 4 years and entered $5,000 on line 17. You did not make a Roth IRA contribution for 1998, so the entire $12,000 withdrawal was allocable to the taxable part of the conversion shown on your 1998 Form 8606, line 22. You did not have any transactions involving Roth IRAs for 1999. Since you already included $17,000 (line 15b of 1998 Form 1040) of the $20,000 in income in 1998, only $3,000 is taxable for 1999, not $5,000, and you include the $3,000 on your 1999 Form 1040, line 15b. You do not have any amounts to report for 2000 or 2001.

Death of Roth IRA owner during 4-year period. If a Roth IRA owner who is including amounts ratably over the 4-year period dies before including all of the amounts in income, any amounts not included must generally be included in the owner's (decedent's) gross income for the year of death. However, if the decedent's surviving spouse receives the entire interest in all the decedent's Roth IRAs, that spouse can elect to continue to ratably include the amounts in income over the remaining years in the 4-year period.

The spouse makes this choice by attaching a statement to his or her return (and to the decedent's final return, if a joint return is not filed). Include the following items on the 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 years.
- The names and social security number 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.
- The amount, if any, of previous taxable distributions from Roth IRAs.

If the spouse makes this choice, the amount includible under the 4-year rule for the year of death is included on the decedent's final return. After the year of death, the surviving spouse reports the same taxable IRA distribution as the decedent would have reported.

The choice cannot be made or changed after the due date (including extensions) for filing the spouse's tax return for the tax year that includes the decedent's date of death. However, if the surviving spouse timely files his or her return for the year without making the choice, the surviving spouse can still make the choice by filing an amended return within six months of the due date of the return (excluding extensions). Attach the statement to the amended return and write “Filed pursuant to section 301.9100–2” on the statement. File the amended return at the same address you filed the original return.

Converting From a SIMPLE IRA

Generally, you can convert an amount in your SIMPLE IRA to a Roth IRA under the same rules explained earlier under *Converting From Any Traditional IRA.*

However, you cannot convert any amount distributed from the SIMPLE IRA during the 2-year period beginning on the date you first participated in any SIMPLE IRA plan maintained by your employer.

Rollover From a Roth IRA

You can withdraw, tax free, all or part of the assets from one Roth IRA if you contribute them within 60 days to another Roth IRA. Most of the rules for rollovers, described in chapter 1 under *Rollover From One IRA Into Another* apply to these rollovers. However, no deductible contributions can be made to Roth IRAs and rollovers from retirement plans other than Roth IRAs are disregarded for purposes of the 1-year waiting period between rollovers.

Failed Conversions

If, when you converted amounts from a traditional IRA or SIMPLE IRA (including a transfer by redesignation) into a Roth IRA, you expected to have modified AGI of less than $100,000 and a filing status other than married filing separately, but events changed these facts, you have made a failed conversion.

Adverse consequences. If the converted amount (contribution) is not recharacterized (explained later), the contribution will be treated as a regular contribution to the Roth IRA and subject to the following tax consequences.

1) A 6% excise tax per year will apply to any excess contribution not withdrawn from the Roth IRA.
2) The distributions from the traditional IRA must be included in your gross income.
3) The 10% additional tax on early withdrawals may apply to any distribution.

How to avoid. You must move the amount converted (including all earnings from the date of conversion) into a traditional IRA by the due date (including extensions) for your tax return for the year during which you made the conversion to the Roth IRA. You do not have to include this withdrawal in income. See *Recharacterization of original contribution,* later for more information.

Recharacterizations

You may be able to treat a contribution made to one type of IRA as having been made to a different type of IRA. This is called recharacterizing the contribution.

How to recharacterize. To recharacterize a contribution, you generally must have the contribution transferred from the first IRA (the one to which it was made) to the second IRA in a trustee-to-trustee transfer. If the transfer is made by the due date (including extensions) for your tax return for the year during which the contribution was made, you can elect to treat the contribution as having been originally made to the second IRA instead of to the first IRA. It will be treated as having been made to the second IRA on the same date that it was actually made to the first IRA. You must report the recharacterization, and must treat the contribution as having been made to the second IRA, instead of the first IRA, on your tax return for the year during which the contribution was made.

Extension of time to recharacterize 1998 IRA contributions. You will have made a timely recharacterization of a 1998 IRA contribution, including a Roth IRA conversion for which you were not eligible, if ***all*** of the following apply.

1) The recharacterization occurred on or before December 31, 1999.
2) You timely filed your 1998 income tax return.
3) You file an amended 1998 tax return if the recharacterization is not properly reflected on the previously filed return.

If you would have liked to recharacterize 1998 Roth IRA contributions, including amounts contributed to Roth IRAs as conversions, you had until the end of 1999 to recharacterize your 1998 IRA contributions.

Conversion by rollover from traditional to Roth IRA. For recharacterization purposes, a distribution from a traditional IRA that is received in one tax year and rolled over into a Roth IRA in the next year, but still within 60 days of the distribution from the traditional IRA, is treated as a contribution to the Roth IRA in the year of the distribution from the traditional IRA.

Earnings must be transferred. The contribution will not be treated as having been made to the second IRA unless the transfer includes any net earnings allocable to the contribution.

No deduction allowed. No deduction is allowed for the contribution to the first IRA and any net earnings transferred with the recharacterized contribution are treated as earned in the second IRA. The contribution will not be treated as having been made to the second IRA to the extent any deduction was allowed with respect to the contribution to the first IRA.

Effect of previous tax-free transfers. If a contribution has been moved from one IRA to another in a tax-free transfer, such as a rollover, the contribution to the

second IRA generally cannot be recharacterized. However, see *Move from traditional to SIMPLE IRA,* later.

Recharacterization of original contribution. A contribution to one IRA that has been moved between IRAs in tax-free transfers can be treated as if it remained in the first IRA, the IRA that received the original contribution. This means that you can elect to recharacterize the contribution to the first IRA by having a trustee-to-trustee transfer of the contribution made from the IRA in which it now resides to a second IRA and treating the contribution as having been made to the second IRA on the same date it was actually made to the first IRA. If both IRAs involved in the trustee-to-trustee transfer are maintained by the same trustee, you need only direct that trustee to transfer the contribution.

Roth IRA conversion contributions from a SEP-IRA or SIMPLE IRA can be recharacterized to a SEP-IRA or SIMPLE IRA (including the original SEP-IRA or SIMPLE IRA).

Move from traditional to SIMPLE IRA. If you mistakenly roll over or transfer an amount from a traditional IRA to a SIMPLE IRA, you can later recharacterize the amount as a contribution to another traditional IRA.

Applying excess contributions. You can recharacterize only actual contributions. If you are applying excess contributions for prior years as current contributions, you can recharacterize them only if the recharacterization would still be timely with respect to the tax year for which the applied contributions were actually made.

Employer contributions. You cannot recharacterize employer contributions (including elective deferrals) under a SEP or SIMPLE plan as contributions to another IRA. SEPs are discussed in chapter 4. SIMPLE plans are discussed in chapter 5.

Recharacterizations not counted as rollover. The recharacterization of a contribution is not treated as a rollover for purposes of the 1-year waiting period described in chapter 1 under *Rollover From One IRA Into Another.* This rule applies even if the contribution would have been treated as a rollover contribution by the second IRA if it had been made directly to the second IRA rather than as a result of a recharacterization of a contribution to the first IRA.

Reconversions

For 1998 and 1999, you could convert an amount from a traditional IRA to a Roth IRA, transfer that amount back to a traditional IRA in a recharacterization, and then reconvert that amount from the traditional IRA to a Roth IRA.

After 1999, you cannot convert and reconvert an amount during the same taxable year, or if later, during the 30-day period following a recharacterization. If you reconvert during this period, it will be a failed conversion.

Rule for 1998 conversions. If you converted an amount from a traditional IRA to a Roth IRA during 1998 and transferred that amount back to a traditional IRA by means of a recharacterization, you could have reconverted that amount to a Roth IRA no more than once during 1999.

Rule for 1999 conversions. If you converted an amount from a traditional IRA to a Roth IRA during 1999 (an amount that had not been converted previously), and then transferred that amount back to a traditional IRA by means of a recharacterization, you could have reconverted that amount to a Roth IRA no more than once during 1999.

Excess reconversions. For 1998 and 1999, if you converted or reconverted an amount, transferred it back to a traditional IRA through a recharacterization, and reconverted it in a transaction that did not meet whichever of the above rules applies, the reconversion is generally an excess reconversion.

However, any reconversions that you made before November 1, 1998, will not be treated as excess reconversions and they will not be taken into account in determining whether any later reconversion is an excess reconversion.

Effect of excess reconversions. For 1998 and 1999, any excess reconversion and the recharacterization that was done just before it will be ignored. The amount you include in income must be based on the last valid reconversion completed before the excess reconversion. Do not include the recharacterization done just before excess reconversion on lines 14(a) and 14(b) of Form 8606.

How Do I Recharacterize a Contribution?

To recharacterize a contribution, you must notify both the trustee of the first IRA (the one to which the contribution was actually made) and the trustee of the second IRA that you have elected to treat, for federal tax purposes, the contribution as having been made to the second IRA rather than the first. You must make the notifications by the date of the transfer. Only one notification is required if both IRAs are maintained by the same trustee. The notification(s) must include all of the following information.

- The type and amount of the contribution to the first IRA that is to be recharacterized.
- The date on which the contribution was made to the first IRA and the year for which it was made.
- A direction to the trustee of the first IRA to transfer in a trustee-to-trustee transfer the amount of the contribution and any net income allocable to the contribution to the trustee of the second IRA.
- The name of the trustee of the first IRA and the name of the trustee of the second IRA.
- Any additional information needed to make the transfer.

Timing. The election to recharacterize and the transfer must both take place on or before the due date (including extensions) for filing your tax return for the year for which the contribution was made to the first IRA.

Decedent. The election to recharacterize can be made by the executor, administrator, or other person responsible for filing the decedent's final income tax return.

Election cannot be changed. After the transfer has taken place, you cannot change your election to recharacterize.

Same trustee. Recharacterizations made with the same trustee can be made by redesignating the first as the second IRA, rather than transferring the account balance.

Reporting a Recharacterization

If you elect to recharacterize a contribution to one IRA as a contribution to another IRA, you must report the recharacterization on your tax return as directed by the tax form and its instructions. You must treat the contribution as having been made to the second IRA.

Recharacterization Example

On June 1, 1999, Christine properly and timely converted her traditional IRAs to a Roth IRA. At the time, she and her husband Jeremy expected to have modified AGI of less than $100,000 for 1999. In December, Jeremy received an unexpected bonus that increased his and Christine's modified AGI to more than $100,000. In January, 2000, to make the necessary adjustment to remove the unallowable conversion, Christine set up a traditional IRA with the same trustee. Also in January 2000, she instructed the trustee of the Roth IRA to make a trustee-to-trustee transfer of the conversion contribution made to the Roth IRA (including amounts earned since the conversion) to the new traditional IRA. She also notified the trustee that she was electing to recharacterize the contribution to the Roth IRA and treat it as if it had been contributed to the new traditional IRA. Because of the recharacterization, Jeremy and Christine have no taxable income from the conversion to report for 1999, and the resulting rollover to a traditional IRA is not treated as a rollover for purposes of the one-rollover-per-year rule.

Are Distributions From My Roth IRA Taxable?

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

What Are Qualified Distributions?

A qualified distribution is, generally, any payment or distribution from your Roth IRA made after the 5-taxable-year period beginning with the first taxable year for which a contribution was made to a Roth IRA set up for your benefit if the payment or distribution is:

1) Made on or after the date you reach age 59½,
2) Made because you are disabled,
3) Made to a beneficiary or to your estate after your death, or
4) One that meets the requirements listed under *First home* in chapter 1 (up to a $10,000 lifetime limit).

What Distributions Are Not Qualified Distributions?

A distribution is not a qualified distribution if it is:

1) Made within the 5-year period beginning with the first year for which either a regular or a conversion contribution was made to a Roth IRA set up for your benefit.
2) Made after the 5-year period described in (1), but you do not meet any of the following requirements.
   a) You have not reached age 59½.
   b) You are not disabled.
   c) The distribution is not made to a beneficiary or to your estate after your death.
   d) You do not use the distribution to pay certain qualified first-time homebuyer amounts. (See *First home* under *When Can I Withdraw or Use IRA Assets?* in chapter 1.)
3) The withdrawal of contributions and earnings on or before the due date of your return (including extensions) for the year in which you made the contributions.

Additional tax on withdrawals of conversion contributions within 5-year period. If, within the 5-year period starting with the year in which you converted any amount from a traditional IRA to a Roth IRA, you withdraw from a Roth IRA an amount attributable to a portion of the conversion contribution that you had to include in income, you generally must pay the 10% additional tax on premature distributions. (See *Ordering Rules* later to determine the amount, if any, of the withdrawal that is attributable to the conversion contribution.)

Unless one of the exceptions listed below applies, you must pay the additional tax on the portion of the withdrawal attributable to any part of the conversion contribution that you had to include in income because of the conversion.

The 10% additional tax applies as though you must include the amount in gross income in the year of the withdrawal, even if you had included it in income in an earlier year (such as in the year of the conversion). You also must pay the additional tax on any portion of the

withdrawal attributable to earnings on contributions. See *Example 2,* later.

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

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

- You have reached age 59½.
- You are disabled.
- You are the beneficiary of a deceased IRA owner.
- You use the distribution to pay certain qualified first-time homebuyer amounts.
- The distributions are part of a series of substantially equal payments.
- You have significant unreimbursed medical expenses.
- You are paying medical insurance premiums after losing your job.
- The distributions are not more than qualified higher education expenses.
- The distribution is due to an IRS levy of the qualified plan.

Additional tax on withdrawals of contributions by due date. You can withdraw contributions tax free by the due date of your return for the year in which you made the contributions. If you have an extension of time to file your return, you can withdraw them tax free by the extended due date. You can do this only if you also withdraw any interest or other income earned on the contributions.

You must include in income any earnings on the contributions you withdraw. Include the earnings in income for the year in which you made the withdrawn contributions. See *Excess Contributions* in chapter 1.

Ordering Rules for Withdrawals

If you make a withdrawal from your Roth IRA that is ***not*** a qualified distribution, part of the withdrawal may be taxable. For purposes of determining the correct tax treatment of withdrawals (other than the withdrawal of excess contributions and the earnings on them, discussed earlier), there is a set order in which contributions (including conversion contributions) and earnings are considered to be withdrawn from your Roth IRA. The order of withdrawals is as follows.

1) Regular contributions.

2) Conversion contributions, on a first-in-first-out basis (generally, total conversions from the earliest year first). See *Aggregation (grouping and adding) rules,* later. These conversion contributions are taken into account as follows:

   a) ***Taxable portion*** (the amount required to be included in gross income because of conversion) first, and then the

   b) ***Nontaxable portion***.

3) Earnings on contributions.

Rollover contributions from other Roth IRAs are disregarded for this purpose.

Aggregation (grouping and adding) rules. To determine the taxable amounts withdrawn (distributed), withdrawals and contributions are grouped and added together as follows.

1) All withdrawals from all your Roth IRAs during the year are added together.

2) All regular contributions made during and for the year (contributions made after the close of the year, but before the due date of your return) are added together. This total is added to the total undistributed regular contributions made in prior years.

3) All conversion contributions made during the year are added together. For purposes of the ordering rules, in the case of any conversion in which the conversion withdrawal is made in 1999 and the conversion contribution is made in 2000, the conversion contribution is treated as contributed prior to other conversion contributions made in 2000.

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

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

How Do I Figure the Taxable Part?

To figure the taxable part of a withdrawal (distribution) that is ***not*** a qualified distribution, complete the following worksheet.

Worksheet To Figure the Taxable Part of a Distribution From a Roth IRA

Caution. If you converted amounts from a traditional IRA in 1998 and you are including the taxable part ratably over a 4-year period, ***do not*** use this worksheet. Instead, see *Withdrawals from Roth IRAs,* earlier, and *Examples,* later, for information on how to determine the amount to include in income.

1) Enter the total of all distributions made from your Roth IRA(s) during the year	$
2) Enter the amount of qualified distributions made during the year	
3) Subtract line 2 from line 1	
4) Enter the amount of distributions made during the year to correct excess contributions made during the year	
5) Subtract line 4 from line 3	
6) Enter the amount of distributions made during the year that were contributed to another Roth IRA in a qualified rollover contribution	
7) Subtract line 6 from line 5	
8) Enter the amount of ***all*** prior distributions from your Roth IRA(s) (whether or not they were qualified distributions)	

9) Add lines 1 and 8 .... ________
10) Enter the amount of the distributions included on line 8 that were previously includible in your income .... ________
11) Subtract line 10 from line 9 .... ________
12) Enter the total of all your contributions to all of your Roth IRAs .... ________
13) Enter the total of all distributions made (this year and in prior years) to correct excess contributions .... ________
14) Subtract line 13 from line 12. (Do not enter less than 0.) .... ________
15) Subtract line 14 from line 11. (Do not enter less than 0.) .... ________
16) Enter the smaller of the amount on line 7 or the amount on line 15. This is the taxable part of your distribution .... $________

Examples

The following examples illustrate the rules affecting the tax treatment of distributions from Roth IRAs.

Example 1. On October 15, 1998, Justin converted all $80,000 in his traditional IRA to his Roth IRA. His Forms 8606 from prior years show that $20,000 of the amount converted is his basis. Because of the conversion, Justin must include $60,000 ($80,000 minus $20,000) in his gross income. He did not elect to report all the income in 1998, so the income is spread ratably over 4 years. For 1999, Justin must include $15,000 ($60,000 divided by 4) in his gross income for 1999. On February 23, 1999, Justin makes a regular contribution of $2,000 to a Roth IRA. On November 7, 1999, Justin withdraws $5,000 from his Roth IRA. The first $2,000 of the withdrawal is a return of Justin's regular contribution and is not includible in his income. The next $3,000 of the withdrawal is includible in income because of the special early inclusion rule for conversion contributions that are withdrawn during the 4-year spread period. The $3,000 is added to the $15,000 of conversion income that is includible in his income for 1999 under the 4-year rule. Justin must report $18,000 as taxable IRA distributions on his return for 1999. Because the $3,000 is distributed before the end of the 5-year period, it is subject to the 10% additional tax on early withdrawals that applies to distributions of conversion contributions. Justin must file Form 5329 with his return to report the early withdrawal and figure the additional tax or claim an exception, if one applies.

Example 2. The facts are the same as in *Example 1*, except that Justin makes a $2,000 regular contribution to his Roth IRA in each year 1999 through 2002 and does not make any withdrawals in 1999 through 2002. On February 14, 2003, Justin withdraws $85,000 from his IRA. The first $10,000 of the distribution is a return of his regular contributions (the total of his regular contributions in each year 1999 through 2003). This amount is returned tax free. The next $60,000 is a return of the conversion contribution made in 1998 that was includible in income in 1998, 1999, 2000, and 2001. This amount is not includible in income in 2003. The remaining $15,000 is a return of the conversion contribution made in 1998 that was not includible in income because it was part of his basis. This amount is returned tax free. Although none of the distribution is includible in income, the $60,000 of conversion contributions withdrawn is subject to the 10% early withdrawal tax, unless an exception to that tax applies. The tax is applied as though the $60,000 is includible in income in the year of the distribution. This is because the conversion contribution that was includible in income is distributed within the 5-year period beginning with the year of the conversion contribution (1998). In this case, the additional tax is $6,000. Although Justin has no income to report from the distribution, he must file Form 5329 to report the additional tax.

Example 3. Assume the same facts as in *Example 2,* except that there is no distribution in 2003. Instead, Justin withdraws the entire $170,000 balance in his Roth IRA in 2004. The balance includes all contributions made to the IRA and the earnings on those contributions ($90,000 of contributions and $80,000 of earnings). Because Justin is not age 59½ or disabled and the distribution will not be used to buy a first home, the distribution is not a qualified distribution. As in *Example 2,* the first $10,000 of the distribution is treated as a return of his regular contributions. This amount is returned tax free. The next $60,000 is a return of the conversion contribution made in 1998 that was includible in income in 1998, 1999, 2000, and 2001. This amount is not includible in income. The next $20,000 is a return of the conversion contribution made in 1998 that was not includible in income in 2004. This amount is returned tax free. The last $80,000 distributed is the earnings on the contributions. This amount must be included in Justin's gross income for 2004 and is subject to the 10% additional tax on early withdrawals unless an exception applies.

Am I required to take distributions when I reach age 70½? You are not required to take distributions from your Roth IRA at any age. The minimum distribution rules that apply to traditional IRAs do not apply to Roth IRAs while the owner is alive. However, after the death of a Roth IRA owner, certain of the minimum distribution rules that apply to traditional IRAs also apply to Roth IRAs.

Can I use my Roth IRA to satisfy minimum distribution requirements for traditional IRAs? No. Nor can you use distributions from traditional IRAs for required distributions from Roth IRAs. See *Distributions to beneficiaries,* later.

Distributions After Owner's Death

If a Roth IRA owner dies, the minimum distribution rules that apply to traditional IRAs apply to Roth IRAs as though the Roth IRA owner died before his or her required beginning date. See *When Can I Withdraw or Use IRA Assets?,* in chapter 1.

Distributions to beneficiaries. Generally, the entire interest in the Roth IRA must be distributed by the end of the fifth calendar year after the year of the owner's death unless the interest is payable to a designated beneficiary over the life or life expectancy of the designated beneficiary. (See *Beneficiaries* under *When Must I Withdraw IRA Assets?* in chapter 1.) If paid as an annuity, it must be payable over a period not greater than the designated beneficiary's life expectancy and distributions must begin before the end of the calendar year following the year of death. Distributions from another Roth IRA cannot be substituted for these distri-

butions unless the other Roth IRA was inherited from the same decedent.

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

Aggregation with other Roth IRAs. A beneficiary can aggregate an inherited Roth IRA with another Roth IRA maintained by the beneficiary only if the beneficiary either inherited the other Roth IRA from the same decedent or was the spouse of the decedent, the sole beneficiary of the Roth IRA, and elects to treat it as his or her own IRA.

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

If the owner of a Roth IRA who is including the conversion of a 1998 withdrawal under the 4-year rule dies before all amounts are included in gross income, all remaining amounts are included in the IRA owner's gross income for the year of death. Consequently, beneficiaries generally receive distributions of conversion contributions tax free, provided the distributions are made after the end of the 5-year period discussed under *What Are Qualified Distributions?,* earlier. To determine the 5-year period, count the time the Roth IRA was held by the owner and the beneficiary. There is a special rule if the spouse is the sole beneficiary of the IRA. See *Death of IRA owner during 4-year period* under *Can I Move Amounts Into a Roth IRA?,* earlier.

If the owner of a Roth IRA dies prior to the end of the 5-year period discussed earlier under *What Distributions Are Not Qualified Distributions,* or the 5-year period starting with the year of a conversion contribution, each type of contribution is divided among multiple beneficiaries according to the pro-rata share of each. See *Ordering Rules for Withdrawals,* earlier.

Example. When Ms. Hubbard dies in 2000, her Roth IRA contains regular contributions of $4,000, a conversion contribution of $10,000 that was made in 1998, and earnings of $2,000. No distributions had been made from her IRA. She had no basis and did not elect to pay the tax on the entire conversion contribution in 1998. When she established her IRA, she named each of her 4 children as equal beneficiaries. Each child will receive one-fourth of each type of contribution and one-fourth of the earnings. An immediate distribution of $4,000 to each child will be treated as $1,000 from regular contributions, $2,500 from conversion contributions, and $500 from earnings. In this case, because the distributions are made before the end of the 5-year period, each beneficiary includes $500 in income for 2000. The 10% addition to tax on premature distributions does not apply because the distribution was made to the beneficiaries as a result of the death of the IRA owner. The amounts not previously included in Ms. Hubbard's gross income under the 4-year rule are included in gross income on her final return.

Basis of distributed amounts. The basis of property distributed from a Roth IRA is its fair market value (FMV) on the date of distribution, whether or not the distribution is a qualified distribution.

3. Education IRAs

You may be able to contribute up to $500 each year to an education individual retirement account (education IRA or Ed IRA) for a child under age 18. Contributions to an education IRA are not deductible.

Any individual (including the child) can contribute to a child's education IRA if the individual's ***modified adjusted gross income*** (defined later) is less than $110,000 ($160,000 on a joint return). The $500 maximum contribution for each contributor is gradually reduced if the individual's modified adjusted gross income is between $95,000 and $110,000 (between $150,000 and $160,000 on a joint return). See *Who Can Contribute to an Education IRA?,* later.

There is no limit on the number of education IRAs that can be established designating the same child as the beneficiary. However, ***total contributions for the child during any tax year cannot be more than $500.***

Amounts deposited in the accounts grow tax free until distributed (withdrawn).

If, for a year, withdrawals from an account are not more than a child's ***qualified higher education expenses*** (defined later) at an ***eligible educational institution*** (defined later), the withdrawals are not taxable. See *Are Withdrawals Taxable?,* later, for more information.

What Is an Education IRA?

An education IRA is not a retirement arrangement. It is a trust or custodial account created only for the purpose of paying the ***qualified higher education expenses*** (defined later) of the ***designated beneficiary*** (defined later) of the account. To be treated as an education IRA, the account must be designated as an education IRA when it is created. It must be created or organized in the United States.

Account requirements. The document creating and governing the account must be in writing and must satisfy the following requirements.

1) The trustee or custodian must be a bank or an entity approved by the IRS.
2) The document must provide that the trustee or custodian can only accept a contribution that:
   a) Is in cash,
   b) Is made before the beneficiary reaches age 18, and

Table 3.1 **Education IRAs at a Glance**

Do not rely on this chart alone. It provides only general highlights. See the text for definitions of terms in bold type and for more complete explanations.

Question	Answer
What is an **education IRA?**	An IRA that is set up to pay the **qualified higher education expenses** of a designated beneficiary.
Where can it be established?	It can be opened in the United States at any bank or other IRS-approved entity that offers education IRAs.
Who can an education IRA be set up for?	Any child who is under age 18.
Who can contribute to an education IRA?	Generally, any individual (including the beneficiary) whose **modified adjusted gross income** for the year is not more than $110,000 ($160,000 for married taxpayers filing jointly).
What is the last day a contribution could have been made for 1999?	December 31, 1999.

c) Would not result in total contributions for the tax year (not including rollover contributions) being more than $500.

3) Money in the account cannot be invested in life insurance contracts.

4) Money in the account cannot be combined with other property except in a common trust fund or common investment fund.

5) Generally, the balance in the account must be distributed within 30 days after the earlier of the following events.

a) The beneficiary reaches age 30.

b) The beneficiary's death.

However, distribution is not required if, as the result of the death of the designated beneficiary, the education IRA is transferred to a surviving spouse or other family member under age 30.

Designated beneficiary. The designated beneficiary is the individual on whose behalf the trust or custodial account has been established.

Qualified higher education expenses. These are expenses required for the enrollment or attendance of the designated beneficiary at an eligible educational institution. The following are qualified higher education expenses.

1) Tuition.
2) Fees.
3) Books.
4) Supplies.
5) Equipment.
6) Amounts contributed to a qualified state tuition program. State tuition programs are discussed in Publication 970, *Tax Benefits for Higher Education.*
7) Room and board if the designated beneficiary is at least a half-time student at an eligible educational institution. A student is enrolled at least half-time if he or she is enrolled for at least half the full-time academic workload for the course of study the student is pursuing as determined under the standards of the institution where the student is enrolled. Room and board is limited to:

a) The school's posted room and board charge for students living on-campus, or

b) $2,500 each year for students living off-campus and not at home.

Eligible educational institution. This is any college, university, vocational school, or other postsecondary educational institution eligible to participate in the student aid programs administered by the Department of Education. It includes virtually any accredited public, nonprofit, or proprietary (privately owned profit-making) postsecondary institution.

Who Can Contribute to an Education IRA?

Any individual (including the designated beneficiary) can contribute to a child's education IRA if the individual's modified adjusted gross income (discussed later) for the tax year is less than $110,000 ($160,000 for married taxpayers filing jointly).

Contributions can be made to one or several education IRAs for the same child provided that the total contributions are not more than the ***contribution limit*** (defined later) for a tax year.

Qualified state tuition program. No contributions can be made to an education IRA on behalf of a beneficiary if any amount is contributed during the tax year to a qualified state tuition program on behalf of the same

Table 3.2 **Education IRA Contributions at a Glance**

Do not rely on this chart alone. It provides only general highlights. See the text for definitions of terms in bold type and for more complete explanations.

Question	Answer
Are contributions deductible?	No.
Why should someone contribute to an education IRA?	It is a tax benefit for families saving for higher education costs.
What is the **contribution limit?**	$500 each year for each child.
What if more than one education IRA has been opened for the same child?	The annual contribution limit is $500 for each child, no matter how many education IRAs are set up for that child.
What if more than one individual makes contributions for the same child?	The contribution limit is $500 per child, no matter how many individuals contribute.
Can contributions other than cash be made to an education IRA?	No.
When must contributions stop?	No contributions can be made to a child's education IRA after he or she reaches age 18.

beneficiary. For more information on state tuition programs, see Publication 970.

Contribution Limits

There are two yearly limits, one on the total amount that can be contributed for each designated beneficiary (child) and one on the amount that any individual can contribute for any one child for a year.

Limit for Each Child

The total of all contributions to all education IRAs set up for the benefit of any one designated beneficiary (child) cannot be more than $500 for a tax year. This includes contributions (other than rollovers) to all the child's education IRAs from all sources. Rollovers are discussed at *Can Education IRA Assets Be Moved?,* later.

Limit for Each Contributor

You can contribute up to $500 for each child for any tax year. This is the most you can contribute for the benefit of any one child for any year, regardless of the number of education IRAs set up for the child. This limit may be reduced as explained next.

Reduced limit for certain contributors. If your ***modified adjusted gross income*** (defined later) is between $95,000 and $110,000 (between $150,000 and $160,000 if filing a joint return), your $500 limit for each child is gradually reduced (see *Figuring the limit,* next). If your modified adjusted income is $110,000 or more ($160,000 or more if filing a joint return), you cannot contribute to anyone's education IRA.

Figuring the limit. To figure the limit on the amount you can contribute for each child, multiply $500 by a fraction. The numerator (top number) is your modified adjusted gross income (defined later) minus $95,000 ($150,000 if filing a joint return). The denominator (bottom number) is $15,000 ($10,000 if filing a joint return). Subtract the result from $500. This is the maximum amount you can contribute for each child.

Example. Jordan, a single individual, had modified adjusted gross income of $96,500 for the year. For Jordan, the maximum contribution ***for each child*** is reduced to $450, figured as follows.

1) $96,500 − $95,000 = $1,500

2) $1,500 ÷ $15,000 = 10%

3) 10% × $500 = $50

4) $500 − $50 = $450

Modified adjusted gross income. Your modified adjusted gross income for the purpose of determining the contribution limit is the adjusted gross income shown on your return, increased by the following exclusions from your income.

1) Foreign earned income of U.S. citizens or residents living abroad.

2) Housing costs of U.S. citizens or residents living abroad.

3) Income from sources within:

   a) Puerto Rico,

   b) Guam,

   c) American Samoa, or

d) The Northern Mariana Islands.

Additional Tax on Excess Contributions

A 6% excise tax applies each year to excess contributions that are in an education IRA at the end of the year. Excess contributions are the ***total*** of the following three amounts.

1) Contributions to any child's education IRAs for the year that are more than $500 (or, if less, the total of each contributor's limit for the year, as discussed earlier).
2) All contributions to a child's education IRA for the year if any amount is also contributed during the year to a qualified state tuition program on behalf of the same child. However, amounts withdrawn from the education IRA to be contributed to the qualified state tuition program are not excess contributions.
3) Excess contributions for the preceding year, reduced by the total of the following:
   a) Withdrawals (other than those rolled over as discussed later) made during the year, and
   b) The contribution limit for the current year minus the amount contributed for the current year.

Exceptions. The excise tax does not apply if the excess contributions (and any earnings on them) are withdrawn before the due date of the beneficiary's tax return for the year (including extensions). If the beneficiary does not have to file a return for the year, the tax does not apply if the excess contributions (and the earnings on them) are withdrawn by April 15 of the year following the year the contributions are made. The withdrawn earnings must be included in the beneficiary's income for the year in which the excess contribution is made.

The excise tax also does not apply to any rollover contribution.

When Contributions Can Be Made

You can make contributions to an education IRA for a year at any time during the year. The last day you can make a contribution for 1999 is December 31, 1999.

Other Contribution Rules

You can contribute only cash to an education IRA. You cannot contribute to an education IRA after the beneficiary reaches age 18.

Can Education IRA Assets Be Moved?

You can roll over assets from one education IRA to another. You can also change the designated beneficiary or transfer the beneficiary's interest to a spouse or former spouse.

Rollovers

Any amount withdrawn from an education IRA and rolled over to another education IRA for the benefit of the same designated beneficiary or a member of the designated beneficiary's family is not taxable. This rule applies only if the beneficiary of the new IRA is under age 30 on the date of the rollover contribution to the new IRA.

An amount is rolled over if it is paid to another education IRA within 60 days after the date of the withdrawal.

Members of the beneficiary's family. The beneficiary's spouse and the following individuals (and their spouses) are members of the designated beneficiary's family.

1) The beneficiary's child, grandchild, or stepchild.
2) A brother, sister, stepbrother, or stepsister of the beneficiary.
3) A son or daughter of the beneficiary's brother or sister.
4) The father, mother, grandfather, grandmother, stepfather, or stepmother of the beneficiary.
5) A brother or sister of the beneficiary's father or mother.
6) The beneficiary's son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law.

Only one rollover per education IRA is allowed during the 12-month period ending on the date of the payment or distribution.

Changing the Designated Beneficiary

The designated beneficiary can be changed to certain members of the beneficiary's family (listed earlier). There are no income tax consequences if, at the time of the change, the new beneficiary is under age 30.

Transfer Because of Divorce

The transfer of a designated beneficiary's interest in an education IRA to his or her spouse or former spouse under a divorce or separation instrument is not a taxable transfer. After the transfer, the interest will be treated as an education IRA in which the spouse or former spouse is the designated beneficiary.

Are Withdrawals Taxable?

Withdrawals that are not more than the designated beneficiary's qualified higher education expenses during the year are generally tax free. The portion of any withdrawal that is more than the education expenses may be taxable.

What Determines the Tax Treatment of Withdrawals?

The tax treatment of distributions (withdrawals) from an education IRA depends, in part, on the qualified higher education expenses that a designated beneficiary has in a tax year.

Distribution Not More Than Expenses

Generally, a withdrawal is tax free if it is not more than the designated beneficiary's qualified higher education expenses in a tax year.

Distributions More Than Expenses

Generally, if the total withdrawals for a tax year are more than the qualified higher education expenses, a portion of the amount withdrawn is taxable and the beneficiary must include it in income.

The taxable portion is the amount of withdrawn earnings that have accumulated tax free in the account. Figure the taxable portion as shown in the following steps.

1) Multiply the amount withdrawn by a fraction, the numerator (top number) of which is the total contributions in the account and the denominator (bottom number) of which is the total balance in the account before the withdrawal(s).

2) Subtract the amount figured in *(1)* from the total amount withdrawn during the year. This is the amount of earnings included in the withdrawal(s).

3) Multiply the amount of earnings figured in *(2)* by a fraction, the numerator of which is the qualified higher education expenses paid during the year and the denominator of which is the total amount withdrawn during the year.

4) Subtract the amount figured in *(3)* from the amount figured in *(2).* This is the amount the beneficiary must include in income.

Example. You receive a $600 distribution from an education IRA to which $1,000 has been contributed. The balance in the IRA before the withdrawal was $1,200. You had $450 of qualified higher education expenses for the year. Using the steps above, you figure the taxable portion of your withdrawal as follows.

1) $\$600 \times {}^{1000}/_{1200} = \$500$

2) $\$600 - \$500 = \$100$

3) $\$100 \times {}^{450}/_{600} = \$75$

4) $\$100 - \$75 = \$25$

You must include $25 in income as withdrawn earnings not used for the expenses of higher education.

You cannot take a deduction or credit for educational expenses you use as the basis for a tax-free withdrawal from an education IRA.

Waiver of tax-free treatment. If you are the designated beneficiary, you can waive the tax-free treatment of the education IRA distribution and elect to pay any tax that would otherwise be owed on the distribution. You or your parents may then be eligible to claim a Hope credit or lifetime learning credit for qualified higher education expenses paid with the distribution in that tax year. See Publication 970 for information about these credits.

Additional tax. Generally, if you receive a taxable distribution, you must pay a 10% additional tax on the amount you must include in income.

Exceptions. The 10% additional tax does not apply if the distribution is described in the following list.

1) It is made to a beneficiary (or to the estate of the designated beneficiary) on or after the death of the designated beneficiary.

2) It is made because the designated beneficiary is disabled (defined later).

3) It is made because the designated beneficiary received:

   a) A qualified scholarship excludable from gross income,

   b) An educational assistance allowance,

   c) Any payment for the designated beneficiary's educational expenses that is excludable from gross income under any law of the United States.

   The exception applies only to the extent the distribution is not more than the scholarship, allowance, or payment.

4) It is included in income only because the student waived the tax-free treatment of the withdrawal as discussed earlier.

5) It is a return of an excess contribution that meets the requirements discussed next under *Return of excess contributions.*

Return of excess contributions. The 10% additional tax does not apply to a distribution that is a return of an excess contribution. For the additional tax not to apply, the distribution must be made before the due date of the beneficiary's tax return (including extensions) and it must include any net income attributable to that contribution. That net income also must be included in the beneficiary's gross income for the tax year the contribution was made. If the beneficiary does not have to file a return, the excess contribution (and any earnings attributable to it) must be withdrawn by April 15 of the year following the year of the contribution.

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

When Must Education IRA Assets Be Distributed?

Generally, any assets remaining in the education IRA ***must*** be withdrawn or distributed when either one of the following two events occurs.

1) The designated beneficiary reaches age 30. In this case, the designated beneficiary must withdraw the remaining assets within 30 days after he or she reaches age 30.

2) The designated beneficiary dies before reaching age 30. In this case, the remaining assets must generally be distributed within 30 days after the date of death. The assets must be distributed to the estate of the designated beneficiary (if no beneficiary is named) or to the beneficiary named by the designated beneficiary.

When distribution is required because of one of these events, any balance remaining at the close of the 30-day period is considered distributed at that time and the earnings portion of the distribution is includable in the beneficiary's gross income. For distributions made because the designated beneficiary reaches age 30, the designated beneficiary may be subject to an additional 10% tax on the portion of the amount withdrawn that represents earnings if the designated beneficiary does not have any qualified higher education expenses in the same tax year he or she makes the withdrawal. To determine the earnings on the amount withdrawn, use the following two steps.

1) Multiply the amount withdrawn by a fraction. The numerator is the total contributions in the account and the denominator is the total balance in the account before the withdrawal(s).

2) Subtract the amount figured in (1) from the total amount withdrawn during the year. The result is the amount of earnings included in the withdrawal. The beneficiary must include this amount in income.

Exception for transfer to surviving spouse or family member. There are no income tax consequences if amounts that are required to be distributed are transferred or rolled over in the following situations.

1) Before a designated beneficiary reaches age 30, the remaining balance in his or her education IRA can be transferred or rolled over to another education IRA for a member of the designated beneficiary's family (defined earlier). The new designated beneficiary must be under age 30 at the time of the transfer or rollover.

2) In the event of a designated beneficiary's death, a spouse or family member acquires the former designated beneficiary's interest in an education IRA as a result of the death of the designated beneficiary. The spouse or family member can treat the education IRA as his or her own.

4. Simplified Employee Pension (SEP)

Self-employed individuals, as well as other employers, can set up simplified employee pension (SEP) plans. A SEP plan allows an employer to make contributions toward employees' retirement, and, if self-employed, his or her own retirement, without becoming involved in more complex retirement plans.

A self-employed individual is an employee for SEP purposes. He or she is also the employer. Even if the self-employed individual is the only qualifying employee, he or she can have an IRA under a SEP plan (SEP-IRA).

This chapter focuses on the rules affecting employees. For information on the rules affecting employers, see Publication 560.

What Is a SEP?

A simplified employee pension (SEP) is a written arrangement (a plan) that allows an employer to make deductible contributions for the benefit of participating employees. The contributions are made to individual retirement arrangements (IRAs) set up for participants in the plan. Under a SEP, traditional IRAs must be set up for each ***qualifying employee*** (defined below). IRAs may have to be set up for ***leased employees*** (defined below), but they do not have to be set up for ***excludable employees*** (defined below). Traditional IRAs set up under a SEP plan are referred to in this publication as SEP-IRAs.

Qualifying employee. A qualifying employee is one who meets ***all*** of the following conditions.

1) Is at least 21 years old.

2) Has worked for the employer during at least 3 of the 5 years immediately preceding the tax year.

3) Has received from the employer at least $400 in compensation in the tax year.

Note. An employer can establish less restrictive participation requirements for its employees than those listed, but not more restrictive ones.

Leased employees. The person or firm for whom you perform services (the recipient) may have to include you in a SEP if you are a “leased employee” and are treated as an employee of the recipient. A leased employee is any person who is not an employee of the recipient and who is hired by a leasing organization, but who performs services for another (the recipient of the services). You are a leased employee if ***all*** of the following apply.

1) You provide services under an agreement between the recipient and the leasing organization.

2) You perform services for the recipient, or for the recipient and related persons, on a substantially full-time basis, for a period of at least 1 year.

3) You perform services under the primary direction and control of the recipient.

For more information on leased employees, see the discussion in Publication 560.

Excludable employees. The following groups of employees can be excluded from coverage under a SEP:

1) Employees covered by a union agreement if their retirement benefits were bargained for in good faith by their union and their employer, and

2) Nonresident alien employees who have no U.S. source earned income from their employer. For more information about nonresident aliens, see Publication 519, *U.S. Tax Guide for Aliens.*

How Much Can Be Contributed on My Behalf?

The SEP rules permit an employer to contribute (and deduct) each year to each participating employee's SEP-IRA up to 15% of the employee's compensation or $30,000, whichever is less. These contributions are funded by the employer.

An employer who signs a SEP agreement does not have to make any contribution to the SEP-IRAs that are set up. But, if the employer does make contributions, the contributions must be based on a written allocation formula and must not discriminate in favor of ***highly compensated employees*** (defined in Publication 560).

Figuring the 15% Limit

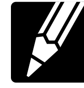
For purposes of determining the 15% limit, compensation is generally limited to $160,000, not including your employer's contribution to your SEP-IRA.

Example. Barry's nonunion employer has a SEP for its employees. Barry's compensation for 1999, before his employer's contribution to his SEP-IRA, was $180,000. Barry's employer can contribute up to $24,000 (15% × $160,000) to Barry's SEP-IRA.

Deduction Limit for a Self-Employed Person

If you are self-employed and contribute to your own SEP-IRA, special rules apply when figuring your maximum deduction for these contributions.

Compensation for the self-employed. For determining the 15% limit on contributions, discussed above, your compensation is your ***net earnings from self-employment,*** defined later. Note that, for SEP purposes, your net earnings (compensation) must take into account your deduction for contributions to your own SEP-IRA. Because your deduction amount and your net earnings amount are each dependent on the other, this adjustment presents a problem.



To solve this problem, you make the adjustment to net earnings indirectly by, in figuring your maximum deduction, reducing the contribution rate called for in the plan. Use the following worksheets to find this reduced contribution rate and your maximum deduction. Make no reduction to the contribution rate for any common-law employees.

Self-Employed Person's Rate Worksheet

1) Plan contribution rate as a decimal (for example, 10½% would be 0.105)	________
2) Rate in line 1 plus one (for example, 0.105 plus one would be 1.105)	________
3) Self-employed rate as a decimal (divide line 1 by line 2)	________

Self-Employed Person's Deduction Worksheet

Step 1 Enter your net earnings from line 3, Schedule C-EZ (Form 1040), line 31, Schedule C (Form 1040), line 36, Schedule F (Form 1040), or line 15a, Schedule K-1 (Form 1065) plus any elective contributions or deferrals described under *Net earnings from self-employment,* later	$
Step 2 Enter your deduction for self-employment tax from line 27, Form 1040	$
Step 3 Subtract Step 2 from Step 1 and enter the result	$
Step 4 Enter your rate from the *Self-Employed Person's Rate Worksheet*	
Step 5 Multiply Step 3 by Step 4 and enter the result	$
Step 6 Multiply $160,000 by your plan contribution rate. Enter the result but not more than $30,000	$
Step 7 Enter the smaller of Step 5 or Step 6. This is your ***maximum deductible contribution.***	$

Example. You are a sole proprietor and have employees. The terms of your plan provide that you contribute 10½% (.105) of your compensation, and 10½% of your common-law employees' compensation. Your net earnings from line 31, Schedule C (Form 1040) is $200,000. In figuring this amount, you deducted your common-law employees' compensation of $100,000 and contributions for them of $10,500 (10½% x $100,000). This net earnings amount is now reduced to $193,267 by subtracting your self-employment tax deduction of $6,733. You figure your self-employed rate and maximum deduction for employer contributions on behalf of yourself as follows:

Self-Employed Person's Rate Worksheet

1) Plan contribution rate as a decimal (for example, 10½% would be 0.105)	0.105
2) Rate in line 1 plus one, (for example, 0.105 plus one would be 1.105)	1.105
3) Self-employed rate as a decimal (divide line 1 by line 2)	0.095

Self-Employed Person's Deduction Worksheet

Step 1	
Enter your net earnings from line 3, Schedule C-EZ (Form 1040), line 31, Schedule C (Form 1040), line 36, Schedule F (Form 1040), or line 15a, Schedule K-1 (Form 1065) plus any elective contributions or deferrals described under *Net earnings from self-employment,* later	$ 200,000
Step 2	
Enter your deduction for self-employment tax from line 27, Form 1040	$ 6,733
Step 3	
Subtract Step 2 from Step 1 and enter the result	$ 193,267
Step 4	
Enter your rate from the *Self-Employed Person's Rate Worksheet*	0.095
Step 5	
Multiply Step 3 by Step 4 and enter the result	$ 18,360
Step 6	
Multiply $160,000 by your plan contribution rate. Enter the result but not more than $30,000	$ 16,800
Step 7	
Enter the smaller of Step 5 or Step 6. This is your ***maximum deductible contribution.***	$ 16,800

Net earnings from self-employment. For SEP purposes, your net earnings are your gross income from your business minus allowable deductions for that business. Allowable deductions include contributions to your employees' SEP-IRAs. You also take into account the deduction allowed for one-half of your self-employment tax, and the deduction for contributions to your own SEP-IRA.

What to include. Include the following items in your net earnings.

1) Foreign earned income and housing cost amounts.
2) If you are a partner, your distributive share of partnership income or loss (other than separately treated items such as capital gains and losses).
3) If you are a limited partner, guaranteed payments for services to or for the partnership.
4) Elective contributions or deferrals under any of the following plans.
   a) 401(k) plans.
   b) 403(b) plans (tax-sheltered annuities).
   c) SEP plans (salary reduction arrangements).
   d) Savings incentive match plans for employees (SIMPLE plans)
   e) Cafeteria plans.
   f) 457 plans (plans of state and local governments and certain tax-exempt organizations).

What not to include. Do not include the following items in your net earnings.

- Tax-free items (or deductions related to them).
- If you are a limited partner, distributions of income or loss.

Time Limit for Contributions

To deduct contributions for a year, the employer must make the contributions by the due date (including extensions) of the employer's return for the year.

Overall Limit—Employer With Defined Contribution and SEP Plans

If an employer contributes to a defined contribution retirement plan (a plan under which an individual account is set up for each participant), annual additions to an account are limited to the lesser of (1) $30,000 or (2) 25% of the participant's compensation. Moreover, for purposes of these limits, contributions to more than one such plan must be added. Since a SEP is considered a defined contribution plan for purposes of these limits, employer contributions to a SEP must be added to other contributions to defined contribution plans.

Are My Employer's Contributions Taxable?

Your employer's contributions to your SEP-IRA are excluded from your income rather than deducted from it. Your employer's contributions to your SEP-IRA should not be included in your wages on your Form W–2, *Wage and Tax Statement,* unless there are contributions under a salary reduction arrangement (explained later).

Unless there are excess contributions, you do not include any contributions in your gross income; nor do you deduct any of them.

Excess employer contributions. If your employer contributes more than is allowed, you must include the excess in your gross income, without any offsetting deduction.

Excess employer contributions you withdraw before your return is due. If your employer contributes more to your SEP-IRA than 15% of your compensation or $30,000, whichever is less, you will not have to pay the 6% tax (discussed in chapter 1 under *Excess Contributions*) on it if you withdraw this excess amount (and any interest or other income earned on it) from your SEP-IRA before the date for filing your tax return, including extensions. However, you may have to pay an additional 10% tax (discussed in chapter 1 under *Premature Distributions (Early Withdrawals)*) on the early withdrawal of the interest or other income earned on the excess contribution.

Excess employer contributions you withdraw after your return is due. If employer contributions for the year are $30,000 or less, you can withdraw any excess employer contributions from your SEP-IRA after the due date for filing your tax return, including extensions, free of the 10% tax on premature distributions, discussed earlier. However, the excess contribution is subject to the annual 6% excise tax. Also, you may have to pay the additional 10% tax on the early withdrawal of interest or other income earned on the excess contribution.

Can I Contribute to My SEP-IRA?

You can make contributions to your SEP-IRA independent of employer SEP contributions. You can deduct them the same way as contributions to a regular IRA. However, your deduction may be reduced or eliminated because, as a participant in a SEP, you are

covered by an employer retirement plan. See *How Much Can I Deduct?* in chapter 1.

Excess contributions you make. For information on excess contributions you make to your SEP-IRA independent of employer SEP contributions, see *What Acts Result in Penalties?* in chapter 1.

Self-employed individuals. If you are self-employed (a sole proprietor or partner) and have a SEP plan, take your deduction for employer contributions to your own SEP-IRA on line 29, Form 1040. If you also make deductible contributions to your SEP-IRA (or any other IRA you own) independent of your employer contributions, take your deduction on line 23, Form 1040.

For more employer information on SEP-IRAs, get Publication 560.

Salary Reduction Arrangement

A SEP may include a salary reduction arrangement. Under this type of arrangement, you can elect to have your employer contribute part of your pay to your SEP-IRA. Only the remaining portion of your pay is currently taxable. The tax on the contribution is deferred. This choice is called an ***elective deferral.***

Only SEPs that allowed employees to choose elective deferrals as of December 31, 1996, can include salary reduction arrangements.

Restrictions on election. You can choose elective deferrals only if all three of the following conditions exist.

- At least 50% of employees eligible to participate choose elective deferrals.
- There were no more than 25 eligible employees at any time during the preceding year.
- The amount deferred each year by each eligible highly compensated employee as a percentage of pay is no more than 125% of the average deferral percentage of all other eligible employees (ADP test). Generally, compensation that is more than $160,000 cannot be considered in figuring an employee's deferral percentage.

An elective deferral arrangement is not available for a SEP maintained by a state or local government, any of their political subdivisions, agencies, or instrumentalities, or a tax-exempt organization.

Limits on deferrals. In general, the total income you can defer under a salary reduction arrangement included in your SEP and certain other elective deferral arrangements, for 1999, is limited to $10,000. This limit applies only to the amounts that represent a reduction from your salary, not to any contributions from employer funds.

Elective deferrals, not exceeding the ADP test (see *Restrictions on election,* earlier), are excluded from your income in the year of deferral, but are included in wages for social security, Medicare, and unemployment (FUTA) tax purposes.

Overall limits on SEP contributions. Contributions, including elective deferrals (salary reductions), made by your employer to the SEP-IRA are subject to the overall limit of 15% of your compensation (generally up to $160,000 for 1999) or $30,000, whichever is less.

When Can I Withdraw or Use Assets?

An employer cannot prohibit withdrawals from a SEP-IRA. Also, an employer cannot condition contributions to a SEP-IRA on the keeping of any part of them in the account.

Distributions (withdrawals) from a SEP-IRA are subject to traditional IRA rules. For information on these rules, including tax treatment of distributions, tax-free rollovers, required distributions, and income tax withholding, see *Can I Move Retirement Plan Assets?* and *When Can I Withdraw or Use IRA Assets?* in chapter 1.

5. Savings Incentive Match Plans for Employees (SIMPLE)

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

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

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

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

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

What Is a SIMPLE Plan?

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

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

- Reduce your compensation by a certain percentage each pay period, and
- Have your employer contribute the salary reductions to a SIMPLE IRA on your behalf. These contributions are called salary reduction contributions.

All contributions under a SIMPLE IRA plan must be made to SIMPLE IRAs, not to any other type of IRA. The SIMPLE IRA can be an individual retirement account or an individual retirement annuity, described in chapter 1. Contributions are made on behalf of ***eligible employees***. (See *Eligible Employees,* later.) Contributions are also subject to various ***limits***. (See *How Much Can Be Contributed on My Behalf?,* later.)

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

Eligible Employees

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

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

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

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

- Employees whose retirement benefits are covered by a collective bargaining agreement (union contract).
- Employees who are nonresident aliens and received no earned income from sources within the United States.
- Employees who would not have been eligible employees if an acquisition, disposition, or similar transaction had not occurred during the year. See Publication 560 for more information.

Employee compensation. For purposes of the plan rules, your compensation for a year generally includes the following:

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

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

How Are Contributions Made?

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

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

Your employer cannot place restrictions on the contributions amount (such as by limiting the contributions percentage), except to comply with the salary reduction contributions limit, discussed later.

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

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

Nonelective contributions. Instead of making matching contributions, your employer may be able to choose to make nonelective contributions on behalf of all eligible employees. These nonelective contributions must be made on behalf of each eligible employee who has at least $5,000 of compensation from your employer, whether or not the employee chose salary reductions.

One of the requirements your employer must satisfy is notifying the employees that the election was made.

For other requirements that your employer must satisfy, see Publication 560.

How Much Can Be Contributed on My Behalf?

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

Salary reduction contributions. For 1999, salary reduction contributions (employee-chosen contributions) that your employer can make on your behalf under a SIMPLE plan are limited to $6,000.

If you are a participant in any other employer plans during the year and you have elective salary reductions or deferred compensation under those plans, the salary reduction contributions under the SIMPLE plan also are included in the $10,000 annual limit on exclusions of salary reductions and other elective deferrals.

If the other plan is a deferred compensation plan of a state or local government or a tax-exempt organization, the limit on elective deferrals is $8,000.

You, not your employer, are responsible for monitoring compliance with these limits.

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

Example 1. In 1999, Joshua was a participant in his employer's SIMPLE plan. His compensation, before SIMPLE plan contributions, was $41,600, or $800 per week. Instead of taking it all in cash, Joshua elected to have 12.5% of his weekly pay ($100) contributed to his SIMPLE IRA. For the full year, Joshua's salary reduction contributions were $5,200, which is less than the $6,000 limit on these contributions.

Under the plan, Joshua's employer was required to make matching contributions to Joshua's SIMPLE IRA. Because the employer's matching contributions must equal Joshua's salary reductions, but cannot be more than 3% of his compensation (before salary reductions) for the year, his employer's matching contribution was limited to $1,248 (3% of $41,600).

Example 2. Assume the same facts as in *Example 1,* except that Joshua's compensation for the year was $240,000 and he chose to have 2.5% of his weekly pay contributed to his SIMPLE IRA. In this example, Joshua's salary reduction contributions for the year (2.5% times $240,000) were equal to the 1999 limit for salary reduction contributions ($6,000). Because 3% of Joshua's compensation ($7,200) is more than the amount the employer was required to match ($6,000), the employer's matching contributions were limited to $6,000. In this example, total contributions made on Joshua's behalf for the year were $12,000, the maximum contributions permitted under a SIMPLE plan for 1999.

Matching contributions less than 3%. Your employer can reduce the 3% limit on matching contributions for a calendar year, but only if:

1) The limit is not reduced below 1%,
2) The limit is not reduced for more than 2 years out of the 5-year period that ends with (and includes) the year for which the election is effective, and
3) Employees are notified of the reduced limit within a reasonable period of time before the 60-day election period during which they can enter into salary reduction agreements.

For purposes of applying the rule in item (2) in determining whether the limit was reduced below 3% for the year, any year before the first year in which your employer (or a predecessor employer) maintains a SIMPLE IRA plan will be treated as a year for which the limit was 3%. If your employer chooses to make nonelective contributions for a year (discussed next), that year also will be treated as a year for which the limit was 3%.

Nonelective employer contributions. If your employer chooses to make nonelective contributions, instead of matching contributions, to each eligible employee's SIMPLE IRA, contributions must be 2% of your compensation for the entire year. For 1999, only $160,000 of your compensation can be taken into account to figure the contribution limit.

Your employer can substitute the 2% nonelective contribution for the matching contribution for a year, only if:

1) Eligible employees are notified that a 2% nonelective contribution will be made instead of a matching contribution, and
2) This notice is provided within a reasonable period during which employees can enter into salary reduction agreements.

Example 3. Assume the same facts as in *Example 2,* except that Joshua's employer chose to make nonelective contributions instead of matching contributions. Because the employer's nonelective contributions are limited to 2% of up to $160,000 of Joshua's compensation, the employer's contribution to Joshua's SIMPLE IRA was limited to $3,200 for 1999. In this example, total contributions made on Joshua's behalf for the year were $9,200 (Joshua's salary reductions of $6,000 plus the employer's contribution of $3,200).

When Can I Withdraw or Use Assets?

Generally, the same distribution (withdrawal) rules that apply to traditional IRAs apply to SIMPLE IRAs. These rules are discussed in chapter 1.

Your employer cannot restrict you from making withdrawals from a SIMPLE IRA.

Are Distributions Taxable?

Generally, distributions from a SIMPLE IRA are fully taxable as ordinary income. If the distribution is a premature distribution (discussed in chapter 1), it may be subject to the additional tax on premature distributions. See *Additional Tax on Premature Distributions (Early Withdrawals),* later.

Rollovers and Transfers Exception

Generally, rollovers and trustee-to-trustee transfers are not taxable distributions. See *Two-year rule,* next.

Two-year rule. To qualify as a tax-free rollover (or a tax-free trustee-to-trustee transfer), a rollover distribution (or a transfer) made from a SIMPLE IRA during the 2-year period beginning on the date on which you first participated in your employer's SIMPLE plan must be contributed (or transferred) to another SIMPLE IRA. The 2-year period begins on the first day on which contributions made by your employer are deposited in your SIMPLE IRA.

After the 2-year period, amounts in a SIMPLE IRA can be rolled over or transferred tax free to an IRA other than a SIMPLE IRA.

Additional Tax on Premature Distributions (Early Withdrawals)

The additional tax on premature distributions (discussed in chapter 1) applies to SIMPLE IRAs. If a distribution is a premature distribution and occurs during the 2-year period following the date on which you first participated in your employer's SIMPLE plan, the additional tax on premature distributions is increased from 10% to 25%.

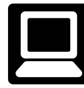
Also, if a rollover distribution (or transfer) from a SIMPLE IRA does not satisfy the 2-year rule, and is otherwise a premature distribution, the additional tax imposed because of the premature distribution is increased from 10% to 25% of the amount distributed.

6.

How To Get More Information

You can order free publications and forms, ask tax questions, and get more information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

Free tax services. To find out what services are available, get Publication 910, *Guide to Free Tax Services.* It contains a list of free tax publications and an index of tax topics. It also describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.



Personal computer. With your personal computer and modem, you can access the IRS on the Internet at **www.irs.gov**. While visiting our web site, you can select:

- *Frequently Asked Tax Questions* (located under *Taxpayer Help & Ed)* to find answers to questions you may have.
- *Forms & Pubs* to download forms and publications or search for forms and publications by topic or keyword.
- *Fill-in Forms* (located under *Forms & Pubs)* to enter information while the form is displayed and then print the completed form.
- *Tax Info For You* to view Internal Revenue Bulletins published in the last few years.
- *Tax Regs in English* to search regulations and the Internal Revenue Code (under *United States Code (USC)).*
- *Digital Dispatch* and *IRS Local News Net* (both located under *Tax Info For Business)* to receive our electronic newsletters on hot tax issues and news.
- *Small Business Corner* (located under *Tax Info For Business)* to get information on starting and operating a small business.

You can also reach us with your computer using File Transfer Protocol at **ftp.irs.gov.**

TaxFax Service. Using the phone attached to your fax machine, you can receive forms and instructions by calling **703–368–9694.** Follow the directions from the prompts. When you order forms, enter the catalog number for the form you need. The items you request will be faxed to you.

Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call **1–800–829–3676** to order current and prior year forms, instructions, and publications.
- *Asking tax questions.* Call the IRS with your tax questions at **1–800–829–1040**.
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call **1–800–829–4059** to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call **1–800–829–4477** to listen to pre-recorded messages covering various tax topics.

Evaluating the quality of our telephone services. To ensure that IRS representatives give accurate, courteous, and professional answers, we evaluate the quality of our telephone services in several ways.

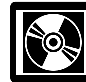
- A second IRS representative sometimes monitors live telephone calls. That person only evaluates the IRS assistor and does not keep a record of any taxpayer's name or tax identification number.
- We sometimes record telephone calls to evaluate IRS assistors objectively. We hold these recordings no longer than one week and use them only to measure the quality of assistance.
- We value our customers' opinions. Throughout this year, we will be surveying our customers for their opinions on our service.

Walk-in. You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Also, some libraries and IRS offices have:

- An extensive collection of products available to print from a CD-ROM or photocopy from reproducible proofs.
- The Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.

Mail. You can send your order for forms, instructions, and publications to the Distribution Center nearest to you and receive a response within 10 workdays after your request is received. Find the address that applies to your part of the country.

- **Western part of U.S.:**
  Western Area Distribution Center
  Rancho Cordova, CA 95743–0001
- **Central part of U.S.:**
  Central Area Distribution Center
  P.O. Box 8903
  Bloomington, IL 61702–8903
- **Eastern part of U.S. and foreign addresses:**
  Eastern Area Distribution Center
  P.O. Box 85074
  Richmond, VA 23261–5074



CD-ROM. You can order IRS Publication 1796, *Federal Tax Products on CD-ROM,* and obtain:

- Current tax forms, instructions, and publications.
- Prior-year tax forms, instructions, and publications.
- Popular tax forms which may be filled in electronically, printed out for submission, and saved for recordkeeping.
- Internal Revenue Bulletins.

The CD-ROM can be purchased from National Technical Information Service (NTIS) by calling **1–877–233–6767** or on the Internet at **www.irs.gov/cdorders.** The first release is available in mid-December and the final release is available in late January.

IRS Publication 3207, *Small Business Resource Guide,* is an interactive CD-ROM that contains information important to small businesses. It is available in mid-February. You can get one free copy by calling **1–800–829–3676.**

Appendices

To help you complete your tax return, use the following appendices that include worksheets, sample forms, and tables.

1) **Appendix A** — *Summary Record of Traditional IRA(s) for 1999* and *Worksheet For Determining Required Annual Distributions.*
2) **Appendix B** — Worksheets you use if you receive social security benefits and are subject to the IRA deduction phaseout rules. A filled-in example is included.
   a) Worksheet 1, *Computation of Modified AGI.*
   b) Worksheet 2, *Computation of Traditional IRA Deduction.*
   c) Worksheet 3, *Computation of Taxable Social Security Benefits.*
   d) *Comprehensive Example* and completed worksheets.
3) **Appendix C** — Filled-in Form 5329, *Additional Taxes Attributable to IRAs, Other Qualified Retirement Plans, Annuities, Modified Endowment Contracts, and MSAs.*
4) **Appendix D** — Filled-in Forms 8606, *Nondeductible IRAs.*
5) **Appendix E** — *Life Expectancy Tables* and the *Table for Determining Applicable Divisor for MDIB (Minimum Distribution Incidental Benefit).* These tables are included to assist you in computing your required minimum distribution amount if you have not taken all your assets from all your traditional IRAs before age 70½.
6) **Appendix F** — *IRAs Contribution/Distribution Quick Reference Chart.*

APPENDIX A. Summary Record of Traditional IRA(s) for 1999 (You May Keep This for Your Records.)

Name ____________________

I was ☐ covered ☐ not covered by my employer's retirement plan during the year.

I became age 59½ on ____________________
(month) (day) (year)

I became age 70½ on ____________________
(month) (day) (year)

Contributions

Name of traditional IRA	Date	Amount contributed for 1999	Check, if rollover contribution	Fair Market Value of IRA as of December 31, 1999, from Form 5498
1.				
2.				
3.				
4.				
5.				
Total				

Total contributions deducted on tax return $ __________

Total contributions treated as nondeductible on Form 8606 $ __________

Distributions

Name of traditional IRA	Date	Amount of distribution	Reason (e.g., for retirement, rollover, conversion, withdrawal of excess contributions, etc.)	Income earned on IRA	Taxable amount reported on income tax return	Nontaxable amount from Form 8606, line 10
1.						
2.						
3.						
4.						
Total						

Basis of all traditional IRAs as of 12/31/99 (from Form 8606, line 11) $ __________

Basis of all traditional IRAs for 1999 (from Form 8606, line 12) $ __________

Note: *You should keep copies of your income tax return, and Forms W-2, 8606, and 5498.*

WORKSHEET FOR DETERMINING REQUIRED ANNUAL DISTRIBUTIONS

1. Age	70½	71½	72½	73½	74½	75½
2. Year age was reached						
3. Value of IRA at the close of business on December 31 of the year immediately prior to the year on line 2[1]						
4. Divisor from Life Expectancy Table I or Table II[2]						
5. Required distribution (divide line 3 by line 4)[3]						

[1]If you have more than one IRA, you must figure the required distribution separately for each IRA.

[2]Use the appropriate divisor for each year and for each IRA. You can either (a) use the appropriate divisor from the table each year, or (b) use the appropriate divisor from the table for your 70½ year and reduce it by 1 (one) for each subsequent year. To find the appropriate divisor, use your age (and that of your beneficiary, if applicable) as of your birthday(s) in the year shown on line 2. If your beneficiary is someone other than your spouse, see *Minimum Distribution Incidental Benefit (MDIB) Requirement* in chapter 1.

[3]If you have more than one IRA, you must withdraw an amount equal to the total of the required distributions figured for each IRA. You can, however, withdraw the total from one IRA or from more than one IRA.

APPENDIX B. Worksheets for Social Security Recipients Who Contribute to a Traditional IRA

If you receive social security benefits, have taxable compensation, contribute to your traditional IRA, and you or your spouse are covered by an employer retirement plan, complete the following worksheets. (See *Are You Covered by an Employer Plan?* in chapter 1.)

Use Worksheet 1 to figure your modified adjusted gross income. This amount is needed in the computation of your IRA deduction, if any, which is figured using Worksheet 2.

The IRA deduction figured using Worksheet 2 is entered on your tax return.

Worksheet 1
Computation of Modified AGI
(For use only by taxpayers who receive social security benefits)

Filing Status—Check only one box:

☐ **A.** Married filing a joint return

☐ **B.** Single, Head of Household, Qualifying Widow(er), or Married filing separately and ***lived apart*** from your spouse during the ***entire year***

☐ **C.** Married filing separately and ***lived with*** your spouse at ***any time*** during the year

1) Adjusted gross income (AGI) from Form 1040 or Form 1040A (not taking into account any social security benefits from Form SSA-1099 or RRB-1099, any deduction for contributions to a traditional IRA, any student loan interest deduction, or any exclusion of interest from savings bonds to be reported on Form 8815) . . . . ______

2) Enter the amount in box 5 of all Forms SSA-1099 and Forms RRB-1099 . . . . . ______

3) Enter one half of line 2 . . . . ______

4) Enter the amount of any foreign earned income exclusion, foreign housing exclusion, U.S. possessions income exclusion, exclusion of income from Puerto Rico you claimed as a bona fide resident of Puerto Rico, or exclusion of employer-paid adoption expenses . . . . ______

5) Enter the amount of any tax-exempt interest reported on line 8b of Form 1040 or 1040A . . . . ______

6) Add lines 1, 3, 4, and 5 . . . . ______

7) Enter the amount listed below for your filing status. . . . . ______

- **$32,000** if you checked box **A** above.
- **$25,000** if you checked box **B** above.
- **$-0-** if you checked box **C** above.

8) Subtract line 7 from line 6. If zero or less, enter 0 on this line . . . . ______

9) If line 8 is zero, **STOP HERE.** None of your social security benefits are taxable. If line 8 is more than 0, enter the amount listed below for your filing status . . . . ______

- **$12,000** if you checked box **A** above.
- **$ 9,000** if you checked box **B** above.
- **$ -0-** if you checked box **C** above.

10) Subtract line 9 from line 8. If zero or less, enter -0-. . . . . ______

APPENDIX B. *(Continued)*

11)	Enter the smaller of line 8 or line 9.	______
12)	Enter one half of line 11.	______
13)	Enter the smaller of line 3 or line 12	______
14)	Multiply line 10 by .85. If line 10 is zero, enter -0-	______
15)	Add lines 13 and 14	______
16)	Multiply line 2 by .85	______
17)	**Taxable benefits** to be included in ***Modified AGI*** for traditional IRA deduction purposes. Enter the smaller of line 15 or line 16.	______
18)	Enter the amount of any employer-paid adoption expenses exclusion and any foreign earned income exclusion and foreign housing exclusion or deduction that you claimed	______
19)	**Modified AGI** for determining your reduced traditional IRA deduction— add lines 1, 17, and 18. Enter here and on line 2 of Worksheet 2, next	______

APPENDIX B. *(Continued)*

Worksheet 2
Computation of Traditional IRA Deduction
(For use only by taxpayers who receive social security benefits)

If your filing status is:	And your modified AGI is over:	Enter on line 1 below:
Married-joint return or qualifying widow(er)	$ 51,000*	$ 61,000
Married-joint return (You are not covered by an employer plan but your spouse is)	$150,000*	$160,000
Single, or Head of household	$ 31,000*	$ 41,000
Married-separate return**	$ -0-*	$ 10,000

* If your modified AGI is not over this amount, you can take an IRA deduction for your contributions of up to the lesser of $2,000 or your taxable compensation. Skip this worksheet and proceed to Worksheet 3.

** If you did not live with your spouse at any time during the year, consider your filing status as single.

Note: *If you were married and you or your spouse worked and you both contributed to IRAs, figure the deduction for each of you separately.*

1. Enter the applicable amount from above . . . . ______
2. Enter your **modified AGI** from Worksheet 1, line 19 . . . . ______

Note: *If line 2 is equal to or more than the amount on line 1,* ***stop here****; your traditional IRA contributions are not deductible. Proceed to Worksheet 3.*

3. Subtract line 2 from line 1 . . . . ______
4. Multiply line 3 by 20% (.20). If the result is not a multiple of $10, round it to the next highest multiple of $10. (For example, $611.40 is rounded to $620.) However, if the result is less than $200, enter $200 . . . . ______
5. Enter your compensation. (If you are the lower income spouse, include your spouse's compensation reduced by his or her IRA deduction and any contributions to Roth IRAs.) ______
6. Enter contributions you made, or plan to make, to your traditional IRA for 1999, but do not enter more than $2,000 . . . . ______
7. **Deduction.** Compare lines 4, 5, and 6. Enter the smallest amount here (or a smaller amount if you choose). Enter this amount on the Form 1040 or 1040A line for your IRA. (If the amount on line 6 is more than the amount on line 7, complete line 8.) . . . . ______
8. **Nondeductible contributions.** Subtract line 7 from line 5 or 6, whichever is smaller. Enter the result here and on line 1 of your Form 8606, *Nondeductible IRAs*. . . . . ______

APPENDIX B. *(Continued)*

Worksheet 3
Computation of Taxable Social Security Benefits
(For use by taxpayers who receive social security benefits and take a traditional IRA deduction)

Filing Status—Check only one box:

☐ **A.** Married filing a joint return

☐ **B.** Single, Head of Household, Qualifying Widow(er), or Married filing separately and ***lived apart*** from your spouse during the ***entire year***

☐ **C.** Married filing separately and ***lived with*** your spouse at **any time** during the year

1) Adjusted gross income (AGI) from Form 1040 or Form 1040A (*not taking into account* any IRA deduction, any student loan interest deduction, any social security benefits from Form SSA-1099 or RBB-1099, or any exclusion of interest from savings bonds to be reported on Form 8815) . . . . ______________

2) Deduction(s) from line 7 of Worksheet(s) 2 . . . . ______________

3) Subtract line 2 from line 1 . . . . ______________

4) Enter amount in Box 5 of all Forms SSA-1099 and Forms RRB-1099 . . . . . . ______________

5) Enter one half of line 4 . . . . ______________

6) Enter the amount of any foreign earned income exclusion, foreign housing exclusion, exclusion of income from U.S. possessions, exclusion of income from Puerto Rico you claimed as a bona fide resident of Puerto Rico, or exclusion of employer-paid adoption expenses . . . . ______________

7) Enter the amount of any tax-exempt interest reported on line 8b of Form 1040 or 1040A . . . . ______________

8) Add lines 3, 5, 6 and 7 . . . . ______________

9) Enter the amount listed below for your filing status . . . . ______________

- **$32,000** if you checked box **A** above.
- **$25,000** if you checked box **B** above.
- **$-0-** if you checked box **C** above.

10) Subtract line 9 from line 8. If zero or less, enter 0 on this line . . . . ______________

11) If line 10 is zero, **STOP HERE.** None of your social security benefits are taxable. If line 10 is more than 0, enter the amount listed below for your filing status . . . . ______________

- **$12,000** if you checked box **A** above.
- **$ 9,000** if you checked box **B** above.
- **$ -0-** if you checked box **C** above.

12) Subtract line 11 from line 10. If zero or less, enter -0- . . . . ______________

APPENDIX B. *(Continued)*

13) Enter the smaller of line 10 or line 11 . . . . ______

14) Enter one half of line 13 . . . . ______

15) Enter the smaller of line 5 or line 14 . . . . ______

16) Multiply line 12 by .85. If line 12 is zero, enter -0- . . . . ______

17) Add lines 15 and 16 . . . . ______

18) Multiply line 4 by .85 . . . . ______

19) **Taxable social security benefits.** Enter the smaller of line 17 or line 18 . . . . . . ______

APPENDIX B. *(Continued)*

Comprehensive Example
Determining Your Traditional IRA Deduction and the Taxable Portion of Your Social Security Benefits

John Black is married and files a joint return. He had 1999 wages of $53,500. His wife did not work in 1999. He also received social security benefits of $7,000 and made a $2,000 contribution to his traditional IRA for the year. He had no foreign income, no tax-exempt interest, and no adjustments to income on lines 24 through 31 on his Form 1040. He participated in a section 401(k) retirement plan at work.

John completes Worksheets 1 and 2. Worksheet 2 shows that his 1999 IRA deduction is $310. He must either withdraw the contributions that are more than the deduction (the $1,690 shown on line 8 of Worksheet 2), or treat the excess amounts as nondeductible contributions (in which case he must complete Form 8606 and attach it to his Form 1040).

The completed worksheets that follow show how John figured his modified AGI to determine the IRA deduction and the taxable social security benefits to report on his Form 1040.

Worksheet 1
Computation of Modified AGI
(For use only by taxpayers who receive social security benefits)

Filing Status**—**Check only one box:

- ☑ **A.** Married filing a joint return
- ☐ **B.** Single, Head of Household, Qualifying Widow(er), or Married filing separately and ***lived apart*** from your spouse during the ***entire year***
- ☐ **C.** Married filing separately and ***lived with*** your spouse at ***any time*** during the year

Line	Description	Amount
1)	Adjusted gross income (AGI) from Form 1040 or Form 1040A (not taking into account any social security benefits from Form SSA-1099 or RRB-1099, any deduction for contributions to a traditional IRA, any student loan interest deduction, or any exclusion of interest from savings bonds to be reported on Form 8815)	$53,500
2)	Enter the amount in box 5 of all Forms SSA-1099 and Forms RRB-1099	7,000
3)	Enter one half of line 2	3,500
4)	Enter the amount of any foreign earned income exclusion, foreign housing exclusion, U.S. possessions income exclusion, exclusion of income from Puerto Rico you claimed as a bona fide resident of Puerto Rico, or exclusion of employer-paid adoption expenses	-0-
5)	Enter the amount of any tax-exempt interest reported on line 8b of Form 1040 or 1040A	-0-
6)	Add lines 1, 3, 4, and 5	57,000
7)	Enter the amount listed below for your filing status . . . . • **$32,000** if you checked box **A** above. • **$25,000** if you checked box **B** above. • **$-0-** if you checked box **C** above.	32,000
8)	Subtract line 7 from line 6. If zero or less, enter zero on this line	25,000
9)	If line 8 is zero, **STOP HERE.** None of your social security benefits are taxable. If line 8 is more than 0, enter the amount listed below for your filing status . . . . • **$12,000** if you checked box **A** above. • **$ 9,000** if you checked box **B** above. • **$-0-** if you checked box **C** above.	12,000

APPENDIX B. ***(Continued)***

10)	Subtract line 9 from line 8. If zero or less, enter -0-	13,000
11)	Enter the smaller of line 8 or line 9	12,000
12)	Enter one half of line 11	6,000
13)	Enter the smaller of line 3 or line 12	3,500
14)	Multiply line 10 by .85. If line 10 is zero, enter -0-	11,050
15)	Add lines 13 and 14	14,550
16)	Multiply line 2 by .85	5,950
17)	**Taxable benefits** to be included in ***Modified AGI*** for traditional IRA deduction purposes. Enter the smaller of line 15 or line 16	5,950
18)	Enter the amount of any employer-paid adoption expenses exclusion and any foreign earned income exclusion and foreign housing exclusion or deduction that you claimed	-0-
19)	**MODIFIED AGI** for determining your reduced traditional IRA deduction. Add lines 1, 17, and 18. Enter here and on line 2 of Worksheet 2, next	59,450

APPENDIX B. *(Continued)*

Worksheet 2
Computation of Traditional IRA Deduction
(For use only by taxpayers who receive social security benefits)

If your filing status is:	And your modified AGI is over:	Enter on line 1 below:
Married-joint return, or qualifying widow(er)	$ 51,000*	$ 61,000
Married-joint return (You are not covered by an employer plan but your spouse is)	$150,000*	$160,000
Single, or Head of household	$ 31,000*	$ 41,000
Married-separate return**	$ -0-*	$ 10,000

* If your modified AGI is not over this amount, you can take an IRA deduction for your contributions of up to the lesser of $2,000 or your taxable compensation. Skip this worksheet and proceed to Worksheet 3.

** If you did not live with your spouse at any time during the year, consider your filing status as single.

Note: *If you were married and you or your spouse worked and you both contributed to IRAs, figure the deduction for each of you separately.*

1. Enter the applicable amount from above $61,000
2. Enter your **modified AGI** from Worksheet 1, line 19 59,450

Note: *If line 2 is equal to or more than the amount on line 1, **stop here**; your traditional IRA contributions are not deductible. Proceed to Worksheet 3.*

3. Subtract line 2 from line 1 1,550
4. Multiply line 3 by 20% (.20). If the result is not a multiple of $10, round it to the next highest multiple of $10. (For example, $611.40 is rounded to $620.) However, if the result is less than $200, enter $200 310
5. Enter your compensation. (If you are the lower income spouse, include your spouse's compensation reduced by his or her IRA deduction and any contributions to Roth IRAs.) 53,500
6. Enter contributions you made, or plan to make, to your traditional IRA for 1999, but do not enter more than $2,000 2,000
7. **Deduction.** Compare lines 4, 5, and 6. Enter the smallest amount here (or a smaller amount if you choose). Enter this amount on the Form 1040 or 1040A line for your IRA. (If the amount on line 6 is more than the amount on line 7, complete line 8.) 310
8. **Nondeductible contributions.** Subtract line 7 from line 5 or 6, whichever is smaller. Enter the result here and on line 1 of your Form 8606, *Nondeductible IRAs* 1,690

APPENDIX B. *(Continued)*

Worksheet 3
Computation of Taxable Social Security Benefits
(For use by taxpayers who receive social security benefits and take a traditional IRA deduction)

Filing Status—Check only one box:

☑ **A.** Married filing a joint return

☐ **B.** Single, Head of Household, Qualifying Widow(er), or Married filing separately and ***lived apart*** from your spouse during the ***entire year***

☐ **C.** Married filing separately and ***lived with*** your spouse at ***any time*** during the year

1)	Adjusted gross income (AGI) from Form 1040 or Form 1040A (*not taking into account* any IRA deduction, any student loan interest deduction, any social security benefits from Form SSA-1099 or RBB-1099, or any exclusion of interest from savings bonds to be reported on Form 8815)	$53,500
2)	Deduction(s) from line 7 of Worksheet(s) 2	310
3)	Subtract line 2 from line 1	53,190
4)	Enter the amount in Box 5 of all Forms SSA-1099 and Forms RRB-1099	7,000
5)	Enter one half of line 4	3,500
6)	Enter the amount of any foreign earned income exclusion, foreign housing exclusion, exclusion of income from U.S. possessions, exclusion of income from Puerto Rico you claimed as a bona fide resident of Puerto Rico, or exclusion of employer-paid adoption expenses	-0-
7)	Enter the amount of any tax-exempt interest reported on line 8b of Form 1040 or 1040A	-0-
8)	Add lines 3, 5, 6 and 7	56,690
9)	Enter the amount listed below for your filing status . . . . • **$32,000** if you checked box **A** above, or • **$25,000** if you checked box **B** above, or • **$-0-** if you checked box **C** above.	32,000
10)	Subtract line 9 from line 8. If zero or less, enter 0 on this line	24,690
11)	If line 10 is zero, **STOP HERE.** None of your social security benefits are taxable. If line 10 is more than 0, enter the amount listed below for your filing status . . . . • **$12,000** if you checked box **A** above • **$ 9,000** if you checked box **B** above • **$-0-** if you checked box **C** above	12,000
12)	Subtract line 11 from line 10. If zero or less, enter -0-	12,690

APPENDIX B. *(Continued)*

Line	Description	Amount
13)	Enter the smaller of line 10 or line 11	12,000
14)	Enter one half of line 13	6,000
15)	Enter the smaller of line 5 or line 14	3,500
16)	Multiply line 12 by .85. If line 12 is zero, enter -0-	10,787
17)	Add lines 15 and 16	14,287
18)	Multiply line 4 by .85	5,950
19)	**Taxable social security benefits.** Enter the smaller of line 17 or line 18	5,950

APPENDIX C. Filled-in Forms 5329 (for Examples in Chapter 1)

Form **5329**

Department of the Treasury
Internal Revenue Service

Additional Taxes Attributable to IRAs, Other Qualified Retirement Plans, Annuities, Modified Endowment Contracts, and MSAs

(Under Sections 72, 530, 4973, and 4974 of the Internal Revenue Code)

► Attach to Form 1040. See separate instructions.

OMB No. 1545-0203

1999

Attachment Sequence No. **29**

Name of individual subject to additional tax. (If married filing jointly, see page 2 of the instructions.)	Your social security number
Paul Jones	003 : 00 : 0000

Fill in Your Address Only If You Are Filing This Form by Itself and Not With Your Tax Return	Home address (number and street), or P.O. box if mail is not delivered to your home	Apt. no.
	City, town or post office, state, and ZIP code	If this is an amended return, check here ► ☐

If you are subject **only** to the 10% tax on early distributions, see **Who Must File** on page 1 before continuing. You may be able to report this tax directly on Form 1040 without filing Form 5329.

Proof as of November 9, 1999 (Subject to change)

Part I Tax on Early Distributions

Complete this part if a taxable distribution was made from your qualified retirement plan (including an IRA other than an education IRA), annuity contract, or modified endowment contract before you reached age 59½. (If a non-taxable distribution was incorrectly indicated as a taxable distribution on your Form 1099-R, see page 3 of the instructions.)
Note: *You must include the entire taxable amount of the distribution on Form 1040, line 15b or 16b.*

1	Early distributions included in gross income. For Roth IRA distributions, see page 3	1	
2	Early distributions not subject to additional tax. See page 3 and enter the appropriate exception number from the instructions: ________	2	
3	Amount subject to additional tax. Subtract line 2 from line 1	3	
4	**Tax due.** Enter 10% (.10) of line 3. Also include this amount on Form 1040, line 53	4	
	Caution: *If any part of the amount on line 3 was a distribution from a SIMPLE retirement plan, you may have to include 25% of that amount on line 4 instead of 10%. See page 4.*		

Part II Tax on Certain Taxable Distributions From Education (Ed) IRAs

Complete this part if you had a taxable amount on Form 8606, line 30.
Note: *You must include the entire taxable amount of the distribution on Form 1040, line 15b.*

5	Taxable distributions from your Ed IRAs, from Form 8606, line 30	5	
6	Taxable distributions not subject to additional tax. See page 4	6	
7	Amount subject to additional tax. Subtract line 6 from line 5	7	
8	**Tax due.** Enter 10% (.10) of line 7. Also include this amount on Form 1040, line 53	8	

Part III Tax on Excess Contributions to Traditional IRAs

Complete this part if you contributed more to your traditional IRAs for 1999 than is allowable or you had an excess contribution on line 16 of your 1998 Form 5329.

9	Enter your excess contributions from line 16 of your 1998 Form 5329. If zero, go to line 15			9	500
10	If your traditional IRA contributions for 1999 are less than your maximum allowable contribution, see page 4; otherwise, enter -0-	10			
11	Taxable 1999 distributions from your traditional IRAs	11			
12	1999 withdrawals of prior year excess contributions included on line 9. See page 4	12			
13	Add lines 10, 11, and 12			13	
14	Prior year excess contributions. Subtract line 13 from line 9. If zero or less, enter -0-			14	
15	Excess contributions for 1999. See page x. Do not include this amount on Form 1040, line 23			15	
16	Total excess contributions. Add lines 14 and 15			16	500
17	**Tax due.** Enter 6% (.06) of the **smaller** of line 16 **or** the value of your traditional IRAs on December 31, 1999. Also include this amount on Form 1040, line 53			17	30

For Paperwork Reduction Act Notice, see page 6 of separate instructions. Cat. No. 13329Q Form **5329** (1999)

Form **5329**

Department of the Treasury
Internal Revenue Service

Additional Taxes Attributable to IRAs, Other Qualified Retirement Plans, Annuities, Modified Endowment Contracts, and MSAs

(Under Sections 72, 530, 4973, and 4974 of the Internal Revenue Code)
► Attach to Form 1040. See separate instructions.

OMB No. 1545-0203

1999

Attachment Sequence No. **29**

Name of individual subject to additional tax. (If married filing jointly, see page 2 of the instructions.)	Your social security number
Tom Jones	004 00 0000

Fill in Your Address Only If You Are Filing This Form by Itself and Not With Your Tax Return	Home address (number and street), or P.O. box if mail is not delivered to your home	Apt. no.
	City, town or post office, state, and ZIP code	If this is an amended return, check here ► ☐

If you are subject **only** to the 10% tax on early distributions, see **Who Must File** on page 1 before continuing. You may be able to report this tax directly on Form 1040 without filing Form 5329.

Proof as of November 9, 1999 (subject to change)

Part I Tax on Early Distributions

Complete this part if a taxable distribution was made from your qualified retirement plan (including an IRA other than an education IRA), annuity contract, or modified endowment contract before you reached age 59½. (If a non-taxable distribution was incorrectly indicated as a taxable distribution on your Form 1099-R, see page 3 of the instructions.)
Note: *You must include the entire taxable amount of the distribution on Form 1040, line 15b or 16b.*

1	Early distributions included in gross income. For Roth IRA distributions, see page 3	1	3,000
2	Early distributions not subject to additional tax. See page 3 and enter the appropriate exception number from the instructions: ______	2	0
3	Amount subject to additional tax. Subtract line 2 from line 1	3	3,000
4	**Tax due.** Enter 10% (.10) of line 3. Also include this amount on Form 1040, line 53	4	300
	Caution: *If any part of the amount on line 3 was a distribution from a SIMPLE retirement plan, you may have to include 25% of that amount on line 4 instead of 10%. See page 4.*		

Part II Tax on Certain Taxable Distributions From Education (Ed) IRAs

Complete this part if you had a taxable amount on Form 8606, line 30.
Note: *You must include the entire taxable amount of the distribution on Form 1040, line 15b.*

5	Taxable distributions from your Ed IRAs, from Form 8606, line 30	5	
6	Taxable distributions not subject to additional tax. See page 4	6	
7	Amount subject to additional tax. Subtract line 6 from line 5	7	
8	**Tax due.** Enter 10% (.10) of line 7. Also include this amount on Form 1040, line 53	8	

Part III Tax on Excess Contributions to Traditional IRAs

Complete this part if you contributed more to your traditional IRAs for 1999 than is allowable or you had an excess contribution on line 16 of your 1998 Form 5329.

9	Enter your excess contributions from line 16 of your 1998 Form 5329. If zero, go to line 15			9	
10	If your traditional IRA contributions for 1999 are less than your maximum allowable contribution, see page 4; otherwise, enter -0-	10			
11	Taxable 1999 distributions from your traditional IRAs	11			
12	1999 withdrawals of prior year excess contributions included on line 9. See page 4	12			
13	Add lines 10, 11, and 12			13	
14	Prior year excess contributions. Subtract line 13 from line 9. If zero or less, enter -0-			14	
15	Excess contributions for 1999. See page x. Do not include this amount on Form 1040, line 23			15	
16	Total excess contributions. Add lines 14 and 15			16	
17	**Tax due.** Enter 6% (.06) of the **smaller** of line 16 **or** the value of your traditional IRAs on December 31, 1999. Also include this amount on Form 1040, line 53			17	

For Paperwork Reduction Act Notice, see page 6 of separate instructions. Cat. No. 13329Q Form **5329** (1999)

APPENDIX D. Filled-in Forms 8606 (for Example in Chapter 1)

Form **8606**

Department of the Treasury
Internal Revenue Service

Nondeductible IRAs

▶ See separate instructions.

▶ Attach to Form 1040, Form 1040A, or Form 1040NR.

OMB No. 1545-1007

1999

Attachment Sequence No. **48**

Name. If married, file a separate form for each spouse required to file Form 8606. See page 4 of the instructions.
Bill King

Your social security number
002 00 0000

Fill in Your Address Only if You Are Filing This Form by Itself and Not With Your Tax Return

Home address (number and street, or P.O. box if mail is not delivered to your home) | Apt. no.

City, town or post office, state, and ZIP code

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

Complete Part I if:

- You made nondeductible contributions to a traditional IRA for 1999,
- You received distributions from a traditional IRA in 1999 **and** you made nondeductible contributions to a traditional IRA in 1999 or an earlier year, **or**
- You converted part, but not all, of your traditional IRAs to Roth IRAs during 1999 **and** you made nondeductible contributions to a traditional IRA in an earlier year. See the instructions for lines 8 and 11 for special computations.

		Line	Amount
1	Enter your nondeductible contributions to traditional IRAs for 1999, including those made for 1999 from January 1, 2000, through April 17, 2000. See page 4	1	0
2	Enter your total IRA basis for 1998 and earlier years. See page 4	2	2,000
3	Add lines 1 and 2	3	2,000

Did you receive any distributions (withdrawals) from traditional IRAs in 1999?
- **No** ▶ Enter the amount from line 3 on line 12. Do not complete the rest of Part I.
- **Yes** ▶ Go to line 4.

		Line	Amount
4	Enter only those contributions included on line 1 that were made from January 1, 2000, through April 17, 2000. See page 5	4	0
5	Subtract line 4 from line 3	5	2,000
6	Enter the total value of **ALL** your traditional IRAs as of December 31, 1999, plus any outstanding rollovers. See page 5 — **6** 1,800		
7	Enter the total distributions you received from traditional IRAs during 1999. Do not include amounts rolled over. See page 5 — **7** 600		
8	Add lines 6 and 7. (But if you converted part, but not all, of your traditional IRAs to Roth IRAs in 1999, see page 5 for the amount to enter.) — **8** 2,400		
9	Divide line 5 by line 8 and enter the result as a decimal (rounded to at least 3 places). Do not enter more than "1.000" — **9** × .833		
10	Multiply line 7 by line 9. This is the amount of your nontaxable distributions for 1999	10	500
11	Subtract line 10 from line 5. (But if you converted part, but not all, of your traditional IRAs to Roth IRAs in 1999, see page 5 for the amount to enter.) This is your basis in traditional IRA(s) as of December 31, 1999	11	1,500
12	Add lines 4 and 11. This is your **total basis in traditional IRAs for 1999 and earlier years**	12	1,500
13	**Taxable distributions from traditional IRAs.** Subtract line 10 from line 7. Enter the result here and also include it in the total on Form 1040, line 15b; Form 1040A, line 10b; or Form 1040NR, line 16b	13	100

Part II **1999 Conversions From Traditional IRAs to Roth IRAs**

Caution: *If your modified adjusted gross income is over $100,000, **or** you are married filing separately and you lived with your spouse at any time in 1999, you **cannot** convert any amount from traditional IRAs to Roth IRAs for 1999. If you erroneously made a conversion, you must recharacterize (correct) the conversion. See page 5 for details.*

		Line	Amount
14a	Enter the total amount that you converted from traditional IRAs to Roth IRAs in 1999	14a	
b	Recharacterizations. (These are corrections of amounts converted from traditional IRAs to Roth IRAs in 1999.) See page 3	14b	
c	Subtract line 14b from line 14a. This is the net amount you converted to Roth IRAs in 1999	14c	
15	Enter your basis in the amount you entered on line 14c. See page 6	15	
16	**Taxable amount of conversions.** Subtract line 15 from line 14c. Enter the result here and also include it in the total on Form 1040, line 15b; Form 1040A, line 10b; or Form 1040NR, line 16b	16	

For Paperwork Reduction Act Notice, see page 8. Cat. No. 63966F Form **8606** (1999)

Proof as of November 9, 1999 (subject to change)

Form **8606**

Department of the Treasury
Internal Revenue Service

Nondeductible IRAs

► See separate instructions.

► Attach to Form 1040, Form 1040A, or Form 1040NR.

OMB No. 1545-1007

1999

Attachment Sequence No. **48**

Name. If married, file a separate form for each spouse required to file Form 8606. See page 4 of the instructions.
Bill King

Your social security number
002 00 0000

Fill in Your Address Only if You Are Filing This Form by Itself and Not With Your Tax Return

Home address (number and street, or P.O. box if mail is not delivered to your home) | Apt. no.

City, town or post office, state, and ZIP code

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

Complete Part I if:

- You made nondeductible contributions to a traditional IRA for 1999,
- You received distributions from a traditional IRA in 1999 **and** you made nondeductible contributions to a traditional IRA in 1999 or an earlier year, **or**
- You converted part, but not all, of your traditional IRAs to Roth IRAs during 1999 **and** you made nondeductible contributions to a traditional IRA in an earlier year. See the instructions for lines 8 and 11 for special computations.

Line	Description	Line	Amount
1	Enter your nondeductible contributions to traditional IRAs for 1999, including those made for 1999 from January 1, 2000, through April 17, 2000. See page 4	1	0
2	Enter your total IRA basis for 1998 and earlier years. See page 4	2	1,500
3	Add lines 1 and 2	3	1,500

Did you receive any distributions (withdrawals) from traditional IRAs in 1999?
- **No** ► Enter the amount from line 3 on line 12. Do not complete the rest of Part I.
- **Yes** ► Go to line 4.

Line	Description	Line	Amount
4	Enter only those contributions included on line 1 that were made from January 1, 2000, through April 17, 2000. See page 5	4	0
5	Subtract line 4 from line 3	5	1,500
6	Enter the total value of **ALL** your traditional IRAs as of December 31, 1999, plus any outstanding rollovers. See page 5	6	0
7	Enter the total distributions you received from traditional IRAs during 1999. Do not include amounts rolled over. See page 5	7	1,300
8	Add lines 6 and 7. (But if you converted part, but not all, of your traditional IRAs to Roth IRAs in 1999, see page 5 for the amount to enter.)	8	1,300
9	Divide line 5 by line 8 and enter the result as a decimal (rounded to at least 3 places). Do not enter more than "1.000"	9	× 1.000
10	Multiply line 7 by line 9. This is the amount of your nontaxable distributions for 1999	10	1,300
11	Subtract line 10 from line 5. (But if you converted part, but not all, of your traditional IRAs to Roth IRAs in 1999, see page 5 for the amount to enter.) This is your basis in traditional IRA(s) as of December 31, 1999	11	200
12	Add lines 4 and 11. This is your **total basis in traditional IRAs for 1999 and earlier years**	12	200
13	**Taxable distributions from traditional IRAs.** Subtract line 10 from line 7. Enter the result here and also include it in the total on Form 1040, line 15b; Form 1040A, line 10b; or Form 1040NR, line 16b	13	

Part II 1999 Conversions From Traditional IRAs to Roth IRAs

Caution: *If your modified adjusted gross income is over $100,000,* ***or*** *you are married filing separately and you lived with your spouse at any time in 1999, you* ***cannot*** *convert any amount from traditional IRAs to Roth IRAs for 1999. If you erroneously made a conversion, you must recharacterize (correct) the conversion. See page 5 for details.*

Line	Description	Line	Amount
14a	Enter the total amount that you converted from traditional IRAs to Roth IRAs in 1999	14a	
b	Recharacterizations. (These are corrections of amounts converted from traditional IRAs to Roth IRAs in 1999.) See page 3	14b	
c	Subtract line 14b from line 14a. This is the net amount you converted to Roth IRAs in 1999	14c	
15	Enter your basis in the amount you entered on line 14c. See page 6	15	
16	**Taxable amount of conversions.** Subtract line 15 from line 14c. Enter the result here and also include it in the total on Form 1040, line 15b; Form 1040A, line 10b; or Form 1040NR, line 16b	16	

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APPENDIX E. Life Expectancy Tables

TABLE I
(Single Life Expectancy)*

AGE	DIVISOR	AGE	DIVISOR
35	47.3	73	13.9
36	46.4	74	13.2
37	45.4	75	12.5
38	44.4	76	11.9
39	43.5	77	11.2
40	42.5	78	10.6
41	41.5	79	10.0
42	40.6	80	9.5
43	39.6	81	8.9
44	38.7	82	8.4
45	37.7	83	7.9
46	36.8	84	7.4
47	35.9	85	6.9
48	34.9	86	6.5
49	34.0	87	6.1
50	33.1	88	5.7
51	32.2	89	5.3
52	31.3	90	5.0
53	30.4	91	4.7
54	29.5	92	4.4
55	28.6	93	4.1
56	27.7	94	3.9
57	26.8	95	3.7
58	25.9	96	3.4
59	25.0	97	3.2
60	24.2	98	3.0
61	23.3	99	2.8
62	22.5	100	2.7
63	21.6	101	2.5
64	20.8	102	2.3
65	20.0	103	2.1
66	19.2	104	1.9
67	18.4	105	1.8
68	17.6	106	1.6
69	16.8	107	1.4
70	16.0	108	1.3
71	15.3	109	1.1
72	14.6	110	1.0

*Table I does not provide for IRA owners younger than 35 years of age. For additional life expectancy tables, see Publication 939.

APPENDIX E. *(Continued)*

TABLE II
(Joint Life and Last Survivor Expectancy)*

AGES	35	36	37	38	39	40	41	42	43	44
35	54.0	53.5	53.0	52.6	52.2	51.8	51.4	51.1	50.8	50.5
36	53.5	53.0	52.5	52.0	51.6	51.2	50.8	50.4	50.1	49.8
37	53.0	52.5	52.0	51.5	51.0	50.6	50.2	49.8	49.5	49.1
38	52.6	52.0	51.5	51.0	50.5	50.0	49.6	49.2	48.8	48.5
39	52.2	51.6	51.0	50.5	50.0	49.5	49.1	48.6	48.2	47.8
40	51.8	51.2	50.6	50.0	49.5	49.0	48.5	48.1	47.6	47.2
41	51.4	50.8	50.2	49.6	49.1	48.5	48.0	47.5	47.1	46.7
42	51.1	50.4	49.8	49.2	48.6	48.1	47.5	47.0	46.6	46.1
43	50.8	50.1	49.5	48.8	48.2	47.6	47.1	46.6	46.0	45.6
44	50.5	49.8	49.1	48.5	47.8	47.2	46.7	46.1	45.6	45.1
45	50.2	49.5	48.8	48.1	47.5	46.9	46.3	45.7	45.1	44.6
46	50.0	49.2	48.5	47.8	47.2	46.5	45.9	45.3	44.7	44.1
47	49.7	49.0	48.3	47.5	46.8	46.2	45.5	44.9	44.3	43.7
48	49.5	48.8	48.0	47.3	46.6	45.9	45.2	44.5	43.9	43.3
49	49.3	48.5	47.8	47.0	46.3	45.6	44.9	44.2	43.6	42.9
50	49.2	48.4	47.6	46.8	46.0	45.3	44.6	43.9	43.2	42.6
51	49.0	48.2	47.4	46.6	45.8	45.1	44.3	43.6	42.9	42.2
52	48.8	48.0	47.2	46.4	45.6	44.8	44.1	43.3	42.6	41.9
53	48.7	47.9	47.0	46.2	45.4	44.6	43.9	43.1	42.4	41.7
54	48.6	47.7	46.9	46.0	45.2	44.4	43.6	42.9	42.1	41.4
55	48.5	47.6	46.7	45.9	45.1	44.2	43.4	42.7	41.9	41.2
56	48.3	47.5	46.6	45.8	44.9	44.1	43.3	42.5	41.7	40.9
57	48.3	47.4	46.5	45.6	44.8	43.9	43.1	42.3	41.5	40.7
58	48.2	47.3	46.4	45.5	44.7	43.8	43.0	42.1	41.3	40.5
59	48.1	47.2	46.3	45.4	44.5	43.7	42.8	42.0	41.2	40.4
60	48.0	47.1	46.2	45.3	44.4	43.6	42.7	41.9	41.0	40.2
61	47.9	47.0	46.1	45.2	44.3	43.5	42.6	41.7	40.9	40.0
62	47.9	47.0	46.0	45.1	44.2	43.4	42.5	41.6	40.8	39.9
63	47.8	46.9	46.0	45.1	44.2	43.3	42.4	41.5	40.6	39.8
64	47.8	46.8	45.9	45.0	44.1	43.2	42.3	41.4	40.5	39.7
65	47.7	46.8	45.9	44.9	44.0	43.1	42.2	41.3	40.4	39.6
66	47.7	46.7	45.8	44.9	44.0	43.1	42.2	41.3	40.4	39.5
67	47.6	46.7	45.8	44.8	43.9	43.0	42.1	41.1	40.3	39.4
68	47.6	46.7	45.7	44.8	43.9	42.9	42.0	41.1	40.2	39.3
69	47.6	46.6	45.7	44.8	43.8	42.9	42.0	41.0	40.2	39.3
70	47.5	46.6	45.7	44.7	43.8	42.9	41.9	41.0	40.1	39.2
71	47.5	46.6	45.6	44.7	43.8	42.8	41.9	40.9	40.1	39.1
72	47.5	46.6	45.6	44.7	43.7	42.8	41.9	40.9	40.0	39.1
73	47.5	46.5	45.6	44.6	43.7	42.8	41.8	40.9	40.0	39.0
74	47.5	46.5	45.6	44.6	43.7	42.7	41.8	40.8	39.9	39.0
75	47.4	46.5	45.5	44.6	43.6	42.7	41.8	40.8	39.9	39.0
76	47.4	46.5	45.5	44.6	43.6	42.7	41.7	40.8	39.9	38.9
77	47.4	46.5	45.5	44.6	43.6	42.7	41.7	40.7	39.8	38.9
78	47.4	46.4	45.5	44.5	43.6	42.6	41.7	40.7	39.8	38.9
79	47.4	46.4	45.5	44.5	43.6	42.6	41.7	40.7	39.8	38.9
80	47.4	46.4	45.5	44.5	43.6	42.6	41.7	40.7	39.8	38.8
81	47.4	46.4	45.5	44.5	43.5	42.6	41.6	40.7	39.8	38.8
82	47.4	46.4	45.4	44.5	43.5	42.6	41.6	40.7	39.7	38.8
83	47.4	46.4	45.4	44.5	43.5	42.6	41.6	40.7	39.7	38.8
84	47.4	46.4	45.4	44.5	43.5	42.6	41.6	40.7	39.7	38.8
85	47.4	46.4	45.4	44.5	43.5	42.6	41.6	40.6	39.7	38.8
86	47.3	46.4	45.4	44.5	43.5	42.5	41.6	40.6	39.7	38.8
87	47.3	46.4	45.4	44.5	43.5	42.5	41.6	40.6	39.7	38.7
88	47.3	46.4	45.4	44.5	43.5	42.5	41.6	40.6	39.7	38.7
89	47.3	46.4	45.4	44.4	43.5	42.5	41.6	40.6	39.7	38.7
90	47.3	46.4	45.4	44.4	43.5	42.5	41.6	40.6	39.7	38.7
91	47.3	46.4	45.4	44.4	43.5	42.5	41.6	40.6	39.7	38.7
92	47.3	46.4	45.4	44.4	43.5	42.5	41.6	40.6	39.7	38.7

*Table II does not provide for IRA owners or survivors younger than 35 years of age. For additional life expectancy tables, see IRS Publication 939. If you have a beneficiary other than your spouse who is 10 or more years younger than you, see *Minimum Distribution Incidental Benefit (MDIB) Requirement* in chapter 1.

APPENDIX E. *(Continued)*

TABLE II (continued)
(Joint Life and Last Survivor Expectancy)

AGES	45	46	47	48	49	50	51	52	53	54
45	44.1	43.6	43.2	42.7	42.3	42.0	41.6	41.3	41.0	40.7
46	43.6	43.1	42.6	42.2	41.8	41.4	41.0	40.6	40.3	40.0
47	43.2	42.6	42.1	41.7	41.2	40.8	40.4	40.0	39.7	39.3
48	42.7	42.2	41.7	41.2	40.7	40.2	39.8	39.4	39.0	38.7
49	42.3	41.8	41.2	40.7	40.2	39.7	39.3	38.8	38.4	38.1
50	42.0	41.4	40.8	40.2	39.7	39.2	38.7	38.3	37.9	37.5
51	41.6	41.0	40.4	39.8	39.3	38.7	38.2	37.8	37.3	36.9
52	41.3	40.6	40.0	39.4	38.8	38.3	37.8	37.3	36.8	36.4
53	41.0	40.3	39.7	39.0	38.4	37.9	37.3	36.8	36.3	35.8
54	40.7	40.0	39.3	38.7	38.1	37.5	36.9	36.4	35.8	35.3
55	40.4	39.7	39.0	38.4	37.7	37.1	36.5	35.9	35.4	34.9
56	40.2	39.5	38.7	38.1	37.4	36.8	36.1	35.6	35.0	34.4
57	40.0	39.2	38.5	37.8	37.1	36.4	35.8	35.2	34.6	34.0
58	39.7	39.0	38.2	37.5	36.8	36.1	35.5	34.8	34.2	33.6
59	39.6	38.8	38.0	37.3	36.6	35.9	35.2	34.5	33.9	33.3
60	39.4	38.6	37.8	37.1	36.3	35.6	34.9	34.2	33.6	32.9
61	39.2	38.4	37.6	36.9	36.1	35.4	34.6	33.9	33.3	32.6
62	39.1	38.3	37.5	36.7	35.9	35.1	34.4	33.7	33.0	32.3
63	38.9	38.1	37.3	36.5	35.7	34.9	34.2	33.5	32.7	32.0
64	38.8	38.0	37.2	36.3	35.5	34.8	34.0	33.2	32.5	31.8
65	38.7	37.9	37.0	36.2	35.4	34.6	33.8	33.0	32.3	31.6
66	38.6	37.8	36.9	36.1	35.2	34.4	33.6	32.9	32.1	31.4
67	38.5	37.7	36.8	36.0	35.1	34.3	33.5	32.7	31.9	31.2
68	38.4	37.6	36.7	35.8	35.0	34.2	33.4	32.5	31.8	31.0
69	38.4	37.5	36.6	35.7	34.9	34.1	33.2	32.4	31.6	30.8
70	38.3	37.4	36.5	35.7	34.8	34.0	33.1	32.3	31.5	30.7
71	38.2	37.3	36.5	35.6	34.7	33.9	33.0	32.2	31.4	30.5
72	38.2	37.3	36.4	35.5	34.6	33.8	32.9	32.1	31.2	30.4
73	38.1	37.2	36.3	35.4	34.6	33.7	32.8	32.0	31.1	30.3
74	38.1	37.2	36.3	35.4	34.5	33.6	32.8	31.9	31.1	30.2
75	38.1	37.1	36.2	35.3	34.5	33.6	32.7	31.8	31.0	30.1
76	38.0	37.1	36.2	35.3	34.4	33.5	32.6	31.8	30.9	30.1
77	38.0	37.1	36.2	35.3	34.4	33.5	32.6	31.7	30.8	30.0
78	38.0	37.0	36.1	35.2	34.3	33.4	32.5	31.7	30.8	29.9
79	37.9	37.0	36.1	35.2	34.3	33.4	32.5	31.6	30.7	29.9
80	37.9	37.0	36.1	35.2	34.2	33.4	32.5	31.6	30.7	29.8
81	37.9	37.0	36.0	35.1	34.2	33.3	32.4	31.5	30.7	29.8
82	37.9	36.9	36.0	35.1	34.2	33.3	32.4	31.5	30.6	29.7
83	37.9	36.9	36.0	35.1	34.2	33.3	32.4	31.5	30.6	29.7
84	37.8	36.9	36.0	35.1	34.2	33.2	32.3	31.4	30.6	29.7
85	37.8	36.9	36.0	35.1	34.1	33.2	32.3	31.4	30.5	29.6
86	37.8	36.9	36.0	35.0	34.1	33.2	32.3	31.4	30.5	29.6
87	37.8	36.9	35.9	35.0	34.1	33.2	32.3	31.4	30.5	29.6
88	37.8	36.9	35.9	35.0	34.1	33.2	32.3	31.4	30.5	29.6
89	37.8	36.9	35.9	35.0	34.1	33.2	32.3	31.4	30.5	29.6
90	37.8	36.9	35.9	35.0	34.1	33.2	32.3	31.3	30.5	29.6
91	37.8	36.8	35.9	35.0	34.1	33.2	32.2	31.3	30.4	29.5
92	37.8	36.8	35.9	35.0	34.1	33.2	32.2	31.3	30.4	29.5

APPENDIX E. *(Continued)*

TABLE II (comtinued)
(Joint Life and Last Survivor Expectancy)

AGES	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74
55	34.4	33.9	33.5	33.1	32.7	32.3	32.0	31.7	31.4	31.1										
56	33.9	33.4	33.0	32.5	32.1	31.7	31.4	31.0	30.7	30.4										
57	33.5	33.0	32.5	32.0	31.6	31.2	30.8	30.4	30.1	29.8										
58	33.1	32.5	32.0	31.5	31.1	30.6	30.2	29.9	29.5	29.2										
59	32.7	32.1	31.6	31.1	30.6	30.1	29.7	29.3	28.9	28.6										
60	32.3	31.7	31.2	30.6	30.1	29.7	29.2	28.8	28.4	28.0										
61	32.0	31.4	30.8	30.2	29.7	29.2	28.7	28.3	27.8	27.4										
62	31.7	31.0	30.4	29.9	29.3	28.8	28.3	27.8	27.3	26.9										
63	31.4	30.7	30.1	29.5	28.9	28.4	27.8	27.3	26.9	26.4										
64	31.1	30.4	29.8	29.2	28.6	28.0	27.4	26.9	26.4	25.9										
65	30.9	30.2	29.5	28.9	28.2	27.6	27.1	26.5	26.0	25.5	25.0	24.6	24.2	23.8	23.4	23.1	22.8	22.5	22.2	22.0
66	30.6	29.9	29.2	28.6	27.9	27.3	26.7	26.1	25.6	25.1	24.6	24.1	23.7	23.3	22.9	22.5	22.2	21.9	21.6	21.4
67	30.4	29.7	29.0	28.3	27.6	27.0	26.4	25.8	25.2	24.7	24.2	23.7	23.2	22.8	22.4	22.0	21.7	21.3	21.0	20.8
68	30.2	29.5	28.8	28.1	27.4	26.7	26.1	25.5	24.9	24.3	23.8	23.3	22.8	22.3	21.9	21.5	21.2	20.8	20.5	20.2
69	30.1	29.3	28.6	27.8	27.1	26.5	25.8	25.2	24.6	24.0	23.4	22.9	22.4	21.9	21.5	21.1	20.7	20.3	20.0	19.6
70	29.9	29.1	28.4	27.6	26.9	26.2	25.6	24.9	24.3	23.7	23.1	22.5	22.0	21.5	21.1	20.6	20.2	19.8	19.4	19.1
71	29.7	29.0	28.2	27.5	26.7	26.0	25.3	24.7	24.0	23.4	22.8	22.2	21.7	21.2	20.7	20.2	19.8	19.4	19.0	18.6
72	29.6	28.8	28.1	27.3	26.5	25.8	25.1	24.4	23.8	23.1	22.5	21.9	21.3	20.8	20.3	19.8	19.4	18.9	18.5	18.2
73	29.5	28.7	27.9	27.1	26.4	25.6	24.9	24.2	23.5	22.9	22.2	21.6	21.0	20.5	20.0	19.4	19.0	18.5	18.1	17.7
74	29.4	28.6	27.8	27.0	26.2	25.5	24.7	24.0	23.3	22.7	22.0	21.4	20.8	20.2	19.6	19.1	18.6	18.2	17.7	17.3
75	29.3	28.5	27.7	26.9	26.1	25.3	24.6	23.8	23.1	22.4	21.8	21.1	20.5	19.9	19.3	18.8	18.3	17.8	17.3	16.9
76	29.2	28.4	27.6	26.8	26.0	25.2	24.4	23.7	23.0	22.3	21.6	20.9	20.3	19.7	19.1	18.5	18.0	17.5	17.0	16.5
77	29.1	28.3	27.5	26.7	25.9	25.1	24.3	23.6	22.8	22.1	21.4	20.7	20.1	19.4	18.8	18.3	17.7	17.2	16.7	16.2
78	29.1	28.2	27.4	26.6	25.8	25.0	24.2	23.4	22.7	21.9	21.2	20.5	19.9	19.2	18.6	18.0	17.5	16.9	16.4	15.9
79	29.0	28.2	27.3	26.5	25.7	24.9	24.1	23.3	22.6	21.8	21.1	20.4	19.7	19.0	18.4	17.8	17.2	16.7	16.1	15.6
80	29.0	28.1	27.3	26.4	25.6	24.8	24.0	23.2	22.4	21.7	21.0	20.2	19.5	18.9	18.2	17.6	17.0	16.4	15.9	15.4
81	28.9	28.1	27.2	26.4	25.5	24.7	23.9	23.1	22.3	21.6	20.8	20.1	19.4	18.7	18.1	17.4	16.8	16.2	15.7	15.1
82	28.9	28.0	27.2	26.3	25.5	24.6	23.8	23.0	22.3	21.5	20.7	20.0	19.3	18.6	17.9	17.3	16.6	16.0	15.5	14.9
83	28.8	28.0	27.1	26.3	25.4	24.6	23.8	23.0	22.2	21.4	20.6	19.9	19.2	18.5	17.8	17.1	16.5	15.9	15.3	14.7
84	28.8	27.9	27.1	26.2	25.4	24.5	23.7	22.9	22.1	21.3	20.5	19.8	19.1	18.4	17.7	17.0	16.3	15.7	15.1	14.5
85	28.8	27.9	27.0	26.2	25.3	24.5	23.7	22.8	22.0	21.3	20.5	19.7	19.0	18.3	17.6	16.9	16.2	15.6	15.0	14.4
86	28.7	27.9	27.0	26.1	25.3	24.5	23.6	22.8	22.0	21.2	20.4	19.6	18.9	18.2	17.5	16.8	16.1	15.5	14.8	14.2
87	28.7	27.8	27.0	26.1	25.3	24.4	23.6	22.8	21.9	21.1	20.4	19.6	18.8	18.1	17.4	16.7	16.0	15.4	14.7	14.1
88	28.7	27.8	27.0	26.1	25.2	24.4	23.5	22.7	21.9	21.1	20.3	19.5	18.8	18.0	17.3	16.6	15.9	15.3	14.6	14.0
89	28.7	27.8	26.9	26.1	25.2	24.4	23.5	22.7	21.9	21.1	20.3	19.5	18.7	18.0	17.2	16.5	15.8	15.2	14.5	13.9
90	28.7	27.8	26.9	26.1	25.2	24.3	23.5	22.7	21.8	21.0	20.2	19.4	18.7	17.9	17.2	16.5	15.8	15.1	14.5	13.8
91	28.7	27.8	26.9	26.0	25.2	24.3	23.5	22.6	21.8	21.0	20.2	19.4	18.6	17.9	17.1	16.4	15.7	15.0	14.4	13.7
92	28.6	27.8	26.9	26.0	25.2	24.3	23.5	22.6	21.8	21.0	20.2	19.4	18.6	17.8	17.1	16.4	15.7	15.0	14.3	13.7
93	28.6	27.8	26.9	26.0	25.1	24.3	23.4	22.6	21.8	20.9	20.1	19.3	18.6	17.8	17.1	16.3	15.6	14.9	14.3	13.6
94	28.6	27.7	26.9	26.0	25.1	24.3	23.4	22.6	21.7	20.9	20.1	19.3	18.5	17.8	17.0	16.3	15.6	14.9	14.2	13.6
95	28.6	27.7	26.9	26.0	25.1	24.3	23.4	22.6	21.7	20.9	20.1	19.3	18.5	17.8	17.0	16.3	15.6	14.9	14.2	13.5
96	28.6	27.7	26.9	26.0	25.1	24.2	23.4	22.6	21.7	20.9	20.1	19.3	18.5	17.7	17.0	16.2	15.5	14.8	14.2	13.5
97	28.6	27.7	26.8	26.0	25.1	24.2	23.4	22.5	21.7	20.9	20.1	19.3	18.5	17.7	17.0	16.2	15.5	14.8	14.1	13.5
98	28.6	27.7	26.8	26.0	25.1	24.2	23.4	22.5	21.7	20.9	20.1	19.3	18.5	17.7	16.9	16.2	15.5	14.8	14.1	13.4
99	28.6	27.7	26.8	26.0	25.1	24.2	23.4	22.5	21.7	20.9	20.0	19.2	18.5	17.7	16.9	16.2	15.5	14.7	14.1	13.4
100	28.6	27.7	26.8	26.0	25.1	24.2	23.4	22.5	21.7	20.8	20.0	19.2	18.4	17.7	16.9	16.2	15.4	14.7	14.0	13.4
101	28.6	27.7	26.8	25.9	25.1	24.2	23.4	22.5	21.7	20.8	20.0	19.2	18.4	17.7	16.9	16.1	15.4	14.7	14.0	13.3
102	28.6	27.7	26.8	25.9	25.1	24.2	23.3	22.5	21.7	20.8	20.0	19.2	18.4	17.6	16.9	16.1	15.4	14.7	14.0	13.3
103	28.6	27.7	26.8	25.9	25.1	24.2	23.3	22.5	21.7	20.8	20.0	19.2	18.4	17.6	16.9	16.1	15.4	14.7	14.0	13.3
104	28.6	27.7	26.8	25.9	25.1	24.2	23.3	22.5	21.6	20.8	20.0	19.2	18.4	17.6	16.9	16.1	15.4	14.7	14.0	13.3
105	28.6	27.7	26.8	25.9	25.1	24.2	23.3	22.5	21.6	20.8	20.0	19.2	18.4	17.6	16.8	16.1	15.4	14.6	13.9	13.3
106	28.6	27.7	26.8	25.9	25.1	24.2	23.3	22.5	21.6	20.8	20.0	19.2	18.4	17.6	16.8	16.1	15.3	14.6	13.9	13.3
107	28.6	27.7	26.8	25.9	25.1	24.2	23.3	22.5	21.6	20.8	20.0	19.2	18.4	17.6	16.8	16.1	15.3	14.6	13.9	13.2
108	28.6	27.7	26.8	25.9	25.1	24.2	23.3	22.5	21.6	20.8	20.0	19.2	18.4	17.6	16.8	16.1	15.3	14.6	13.9	13.2
109	28.6	27.7	26.8	25.9	25.1	24.2	23.3	22.5	21.6	20.8	20.0	19.2	18.4	17.6	16.8	16.1	15.3	14.6	13.9	13.2
110	28.6	27.7	26.8	25.9	25.1	24.2	23.3	22.5	21.6	20.8	20.0	19.2	18.4	17.6	16.8	16.1	15.3	14.6	13.9	13.2
111	28.6	27.7	26.8	25.9	25.0	24.2	23.3	22.5	21.6	20.8	20.0	19.2	18.4	17.6	16.8	16.0	15.3	14.6	13.9	13.2
112	28.6	27.7	26.8	25.9	25.0	24.2	23.3	22.5	21.6	20.8	20.0	19.2	18.4	17.6	16.8	16.0	15.3	14.6	13.9	13.2
113	28.6	27.7	26.8	25.9	25.0	24.2	23.3	22.5	21.6	20.8	20.0	19.2	18.4	17.6	16.8	16.0	15.3	14.6	13.9	13.2
114	28.6	27.7	26.8	25.9	25.0	24.2	23.3	22.5	21.6	20.8	20.0	19.2	18.4	17.6	16.8	16.0	15.3	14.6	13.9	13.2
115	28.6	27.7	26.8	25.9	25.0	24.2	23.3	22.5	21.6	20.8	20.0	19.2	18.4	17.6	16.8	16.0	15.3	14.6	13.9	13.2

APPENDIX E. *(Continued)*

TABLE II (continued)
(Joint Life and Last Survivor Expectancy)

AGES	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94
75	16.5	16.1	15.8	15.4	15.1	14.9	14.6	14.4	14.2	14.0										
76	16.1	15.7	15.4	15.0	14.7	14.4	14.1	13.9	13.7	13.5										
77	15.8	15.4	15.0	14.6	14.3	14.0	13.7	13.4	13.2	13.0										
78	15.4	15.0	14.6	14.2	13.9	13.5	13.2	13.0	12.7	12.5										
79	15.1	14.7	14.3	13.9	13.5	13.2	12.8	12.5	12.3	12.0										
80	14.9	14.4	14.0	13.5	13.2	12.8	12.5	12.2	11.9	11.6										
81	14.6	14.1	13.7	13.2	12.8	12.5	12.1	11.8	11.5	11.2										
82	14.4	13.9	13.4	13.0	12.5	12.2	11.8	11.5	11.1	10.9										
83	14.2	13.7	13.2	12.7	12.3	11.9	11.5	11.1	10.8	10.5										
84	14.0	13.5	13.0	12.5	12.0	11.6	11.2	10.9	10.5	10.2										
85	13.8	13.3	12.8	12.3	11.8	11.4	11.0	10.6	10.2	9.9	9.6	9.3	9.1	8.9	8.7	8.5	8.3	8.2	8.0	7.9
86	13.7	13.1	12.6	12.1	11.6	11.2	10.8	10.4	10.0	9.7	9.3	9.1	8.8	8.6	8.3	8.2	8.0	7.8	7.7	7.6
87	13.5	13.0	12.4	11.9	11.4	11.0	10.6	10.1	9.8	9.4	9.1	8.8	8.5	8.3	8.1	7.9	7.7	7.5	7.4	7.2
88	13.4	12.8	12.3	11.8	11.3	10.8	10.4	10.0	9.6	9.2	8.9	8.6	8.3	8.0	7.8	7.6	7.4	7.2	7.1	6.9
89	13.3	12.7	12.2	11.6	11.1	10.7	10.2	9.8	9.4	9.0	8.7	8.3	8.1	7.8	7.5	7.3	7.1	6.9	6.8	6.6
90	13.2	12.6	12.1	11.5	11.0	10.5	10.1	9.6	9.2	8.8	8.5	8.2	7.9	7.6	7.3	7.1	6.9	6.7	6.5	6.4
91	13.1	12.5	12.0	11.4	10.9	10.4	9.9	9.5	9.1	8.7	8.3	8.0	7.7	7.4	7.1	6.9	6.7	6.5	6.3	6.2
92	13.1	12.5	11.9	11.3	10.8	10.3	9.8	9.4	8.9	8.5	8.2	7.8	7.5	7.2	6.9	6.7	6.5	6.3	6.1	5.9
93	13.0	12.4	11.8	11.3	10.7	10.2	9.7	9.3	8.8	8.4	8.0	7.7	7.4	7.1	6.8	6.5	6.3	6.1	5.9	5.8
94	12.9	12.3	11.7	11.2	10.6	10.1	9.6	9.2	8.7	8.3	7.9	7.6	7.2	6.9	6.6	6.4	6.2	5.9	5.8	5.6
95	12.9	12.3	11.7	11.1	10.6	10.1	9.6	9.1	8.6	8.2	7.8	7.5	7.1	6.8	6.5	6.3	6.0	5.8	5.6	5.4
96	12.9	12.2	11.6	11.1	10.5	10.0	9.5	9.0	8.5	8.1	7.7	7.3	7.0	6.7	6.4	6.1	5.9	5.7	5.5	5.3
97	12.8	12.2	11.6	11.0	10.5	9.9	9.4	8.9	8.5	8.0	7.6	7.3	6.9	6.6	6.3	6.0	5.8	5.5	5.3	5.1
98	12.8	12.2	11.5	11.0	10.4	9.9	9.4	8.9	8.4	8.0	7.6	7.2	6.8	6.5	6.2	5.9	5.6	5.4	5.2	5.0
99	12.7	12.1	11.5	10.9	10.4	9.8	9.3	8.8	8.3	7.9	7.5	7.1	6.7	6.4	6.1	5.8	5.5	5.3	5.1	4.9
100	12.7	12.1	11.5	10.9	10.3	9.8	9.2	8.7	8.3	7.8	7.4	7.0	6.6	6.3	6.0	5.7	5.4	5.2	5.0	4.8
101	12.7	12.1	11.4	10.8	10.3	9.7	9.2	8.7	8.2	7.8	7.3	6.9	6.6	6.2	5.9	5.6	5.3	5.1	4.9	4.7
102	12.7	12.0	11.4	10.8	10.2	9.7	9.2	8.7	8.2	7.7	7.3	6.9	6.5	6.2	5.8	5.5	5.3	5.0	4.8	4.6
103	12.6	12.0	11.4	10.8	10.2	9.7	9.1	8.6	8.1	7.7	7.2	6.8	6.4	6.1	5.8	5.5	5.2	4.9	4.7	4.5
104	12.6	12.0	11.4	10.8	10.2	9.6	9.1	8.6	8.1	7.6	7.2	6.8	6.4	6.0	5.7	5.4	5.1	4.8	4.6	4.4
105	12.6	12.0	11.3	10.7	10.2	9.6	9.1	8.5	8.0	7.6	7.1	6.7	6.3	6.0	5.6	5.3	5.0	4.8	4.5	4.3
106	12.6	11.9	11.3	10.7	10.1	9.6	9.0	8.5	8.0	7.5	7.1	6.7	6.3	5.9	5.6	5.3	5.0	4.7	4.5	4.2
107	12.6	11.9	11.3	10.7	10.1	9.6	9.0	8.5	8.0	7.5	7.1	6.6	6.2	5.9	5.5	5.2	4.9	4.6	4.4	4.2
108	12.6	11.9	11.3	10.7	10.1	9.5	9.0	8.5	8.0	7.5	7.0	6.6	6.2	5.8	5.5	5.2	4.9	4.6	4.3	4.1
109	12.6	11.9	11.3	10.7	10.1	9.5	9.0	8.4	7.9	7.5	7.0	6.6	6.2	5.8	5.5	5.1	4.8	4.5	4.3	4.1
110	12.6	11.9	11.3	10.7	10.1	9.5	9.0	8.4	7.9	7.4	7.0	6.6	6.2	5.8	5.4	5.1	4.8	4.5	4.3	4.0
111	12.5	11.9	11.3	10.7	10.1	9.5	8.9	8.4	7.9	7.4	7.0	6.5	6.1	5.7	5.4	5.1	4.8	4.5	4.2	4.0
112	12.5	11.9	11.3	10.6	10.1	9.5	8.9	8.4	7.9	7.4	7.0	6.5	6.1	5.7	5.4	5.0	4.7	4.4	4.2	3.9
113	12.5	11.9	11.2	10.6	10.0	9.5	8.9	8.4	7.9	7.4	6.9	6.5	6.1	5.7	5.4	5.0	4.7	4.4	4.2	3.9
114	12.5	11.9	11.2	10.6	10.0	9.5	8.9	8.4	7.9	7.4	6.9	6.5	6.1	5.7	5.3	5.0	4.7	4.4	4.1	3.9
115	12.5	11.9	11.2	10.6	10.0	9.5	8.9	8.4	7.9	7.4	6.9	6.5	6.1	5.7	5.3	5.0	4.7	4.4	4.1	3.9

APPENDIX E. *(Continued)*

Table for Determining Applicable Divisor for MDIB* (Minimum Distribution Incidental Benefit)			
Age	Applicable divisor	Age	Applicable divisor
70	26.2	93	8.8
71	25.3	94	8.3
72	24.4	95	7.8
73	23.5	96	7.3
74	22.7	97	6.9
75	21.8	98	6.5
76	20.9	99	6.1
77	20.1	100	5.7
78	19.2	101	5.3
79	18.4	102	5.0
80	17.6	103	4.7
81	16.8	104	4.4
82	16.0	105	4.1
83	15.3	106	3.8
84	14.5	107	3.6
85	13.8	108	3.3
86	13.1	109	3.1
87	12.4	110	2.8
88	11.8	111	2.6
89	11.1	112	2.4
90	10.5	113	2.2
91	9.9	114	2.0
92	9.4	115 and older	1.8

*Use this table if you have a beneficiary other than your spouse who is 10 or more years younger than you. For additional instructions, see *Minimum Distribution Incidental Benefit (MDIB) Requirement* in chapter 1.

APPENDIX F. IRAs Contribution/Distribution Quick Reference Chart

Type of IRA	Can contribute for the year by:	Maximum contribution for the year limited to:	Must begin distributions [1] by:
Traditional IRA	Due date of return (***not*** including extensions)	The lesser of $2,000 or owner's taxable compensation[2]	April 1 of the year following the year in which owner reaches age 70½
Roth IRA	Due date of return (***not*** including extensions)	The lesser of $2,000 or owner's taxable compensation unless there are also contributions to a traditional IRA[5]	Distributions are not required at any age
SEP-IRA	Due date of return (including extensions)	The lesser of $30,000 or 15% of participant's compensation[3]	April 1 of the year following the year in which owner reaches age 70½
SIMPLE IRA	Due date of return (including extensions)	$12,000 ($6,000 salary reduction contribution plus $6,000 matching employer contribution[4])	April 1 of the year following the year in which owner reaches age 70½

[1]The entire balance or periodic distributions of the balance. See chapter 1 for additional rules.

[2]If owner also has a SEP-IRA, this contribution can be made instead to the SEP-IRA (in addition to the employer's contributions under the SEP plan). See chapter 4.

[3]Compensation does not include your employer's contribution to your SEP-IRA or SIMPLE IRA and generally is limited to $160,000 in 1999. A special computation is required to figure the self-employed participant's contribution limit for a SEP-IRA. See chapter 4. Compensation does include your elective deferrals under certain plans (see list in chapter 4). SIMPLE IRA rules are in chapter 5.

[4]Matching employer contribution is limited to the lesser of the participant's salary reduction contribution or up to 3% of the participant's compensation. See chapter 5.

[5]This limit must be reduced by all contributions (other than employer contributions) for the year to all traditional IRAs. See chapter 2.

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Tax Publications for Individual Taxpayers

See *How To Get More Information* for a variety of ways to get publications, including by computer, phone, and mail.

General Guides

- **1** Your Rights as a Taxpayer
- **17** Your Federal Income Tax (For Individuals)
- **225** Farmer's Tax Guide
- **334** Tax Guide for Small Business
- **509** Tax Calendars for 2000
- **553** Highlights of 1999 Tax Changes
- **595** Tax Highlights for Commercial Fishermen
- **910** Guide to Free Tax Services

Specialized Publications

- **3** Armed Forces' Tax Guide
- **378** Fuel Tax Credits and Refunds
- **463** Travel, Entertainment, Gift, and Car Expenses
- **501** Exemptions, Standard Deduction, and Filing Information
- **502** Medical and Dental Expenses
- **503** Child and Dependent Care Expenses
- **504** Divorced or Separated Individuals
- **505** Tax Withholding and Estimated Tax
- **508** Tax Benefits for Work-Related Education
- **514** Foreign Tax Credit for Individuals
- **516** U.S. Government Civilian Employees Stationed Abroad
- **517** Social Security and Other Information for Members of the Clergy and Religious Workers
- **519** U.S. Tax Guide for Aliens
- **520** Scholarships and Fellowships
- **521** Moving Expenses
- **523** Selling Your Home
- **524** Credit for the Elderly or the Disabled
- **525** Taxable and Nontaxable Income
- **526** Charitable Contributions
- **527** Residential Rental Property
- **529** Miscellaneous Deductions
- **530** Tax Information for First-Time Homeowners
- **531** Reporting Tip Income
- **533** Self-Employment Tax
- **534** Depreciating Property Placed in Service Before 1987
- **537** Installment Sales
- **541** Partnerships
- **544** Sales and Other Dispositions of Assets
- **547** Casualties, Disasters, and Thefts (Business and Nonbusiness)
- **550** Investment Income and Expenses
- **551** Basis of Assets
- **552** Recordkeeping for Individuals
- **554** Older Americans' Tax Guide
- **555** Community Property
- **556** Examination of Returns, Appeal Rights, and Claims for Refund
- **559** Survivors, Executors, and Administrators
- **561** Determining the Value of Donated Property
- **564** Mutual Fund Distributions
- **570** Tax Guide for Individuals With Income From U.S. Possessions
- **575** Pension and Annuity Income
- **584** Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property)
- **587** Business Use of Your Home (Including Use by Day-Care Providers)
- **590** Individual Retirement Arrangements (IRAs) (Including Roth IRAs and Education IRAs)
- **593** Tax Highlights for U.S. Citizens and Residents Going Abroad
- **594** Understanding the Collection Process
- **596** Earned Income Credit (EIC)
- **721** Tax Guide to U.S. Civil Service Retirement Benefits
- **901** U.S. Tax Treaties
- **907** Tax Highlights for Persons with Disabilities
- **908** Bankruptcy Tax Guide
- **911** Direct Sellers
- **915** Social Security and Equivalent Railroad Retirement Benefits
- **919** How Do I Adjust My Tax Withholding?
- **925** Passive Activity and At-Risk Rules
- **926** Household Employer's Tax Guide
- **929** Tax Rules for Children and Dependents
- **936** Home Mortgage Interest Deduction
- **946** How To Depreciate Property
- **947** Practice Before the IRS and Power of Attorney
- **950** Introduction to Estate and Gift Taxes
- **967** IRS Will Figure Your Tax
- **968** Tax Benefits for Adoption
- **970** Tax Benefits for Higher Education
- **971** Innocent Spouse Relief
- **972** Child Tax Credit
- **1542** Per Diem Rates
- **1544** Reporting Cash Payments of Over $10,000
- **1546** The Taxpayer Advocate Service of the IRS

Spanish Language Publications

- **1SP** Derechos del Contribuyente
- **579SP** Cómo Preparar la Declaración de Impuesto Federal
- **594SP** Comprendiendo el Proceso de Cobro
- **596SP** Crédito por Ingreso del Trabajo
- **850** English-Spanish Glossary of Words and Phrases Used in Publications Issued by the Internal Revenue Service
- **1544SP** Informe de Pagos en Efectivo en Exceso de $10,000 (Recibidos en una Ocupación o Negocio)

Commonly Used Tax Forms

See *How To Get More Information* for a variety of ways to get forms, including by computer, fax, phone, and mail. For fax orders only, use the catalog numbers when ordering.

Form Number and Title	Catalog Number
1040 U.S. Individual Income Tax Return	11320
Sch A & B Itemized Deductions & Interest and Ordinary Dividends	11330
Sch C Profit or Loss From Business	11334
Sch C-EZ Net Profit From Business	14374
Sch D Capital Gains and Losses	11338
Sch D-1 Continuation Sheet for Schedule D	10424
Sch E Supplemental Income and Loss	11344
Sch EIC Earned Income Credit	13339
Sch F Profit or Loss From Farming	11346
Sch H Household Employment Taxes	12187
Sch J Farm Income Averaging	25513
Sch R Credit for the Elderly or the Disabled	11359
Sch SE Self-Employment Tax	11358
1040A U.S. Individual Income Tax Return	11327
Sch 1 Interest and Ordinary Dividends for Form 1040A Filers	12075
Sch 2 Child and Dependent Care Expenses for Form 1040A Filers	10749
Sch 3 Credit for the Elderly or the Disabled for Form 1040A Filers	12064
1040EZ Income Tax Return for Single and Joint Filers With No Dependents	11329
1040-ES Estimated Tax for Individuals	11340
1040X Amended U.S. Individual Income Tax Return	11360
2106 Employee Business Expenses	11700
2106-EZ Unreimbursed Employee Business Expenses	20604
2210 Underpayment of Estimated Tax by Individuals, Estates, and Trusts	11744
2441 Child and Dependent Care Expenses	11862
2848 Power of Attorney and Declaration of Representative	11980
3903 Moving Expenses	12490
4562 Depreciation and Amortization	12906
4868 Application for Automatic Extension of Time To File U.S. Individual Income Tax Return	13141
4952 Investment Interest Expense Deduction	13177
5329 Additional Taxes Attributable to IRAs, Other Qualified Retirement Plans, Annuities, Modified Endowment Contracts, and MSAs	13329
6251 Alternative Minimum Tax–Individuals	13600
8283 Noncash Charitable Contributions	62299
8582 Passive Activity Loss Limitations	63704
8606 Nondeductible IRAs	63966
8812 Additional Child Tax Credit	10644
8822 Change of Address	12081
8829 Expenses for Business Use of Your Home	13232
8863 Education Credits	25379