



Instructions for Form 8606

Nondeductible IRAs

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

General Instructions

Purpose of Form

Use Form 8606 to report:

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

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

TIP If you received distributions from a traditional or SIMPLE IRA in 2000 and you have never made nondeductible contributions to traditional IRAs, **do not** report the distributions on Form 8606. Instead, see the instructions for Form 1040, lines 15a and 15b; Form 1040A, lines 11a and 11b; or Form 1040NR, lines 16a and 16b. Also, to find out if any of your contributions to traditional IRAs are deductible, see the instructions for Form 1040, line 23; Form 1040A, line 16; or Form 1040NR, line 24.

Who Must File

File Form 8606 if any of the following apply.

- You made nondeductible contributions to a traditional IRA for 2000.
- You received distributions from a traditional or SIMPLE IRA in 2000 **and** you have ever made nondeductible contributions to a traditional IRA.

- You converted an amount from a traditional or SIMPLE IRA to a Roth IRA in 2000 (even if you later recharacterized the conversion).
- You received distributions from a Roth IRA in 2000.
- You recharacterized a 2000 Roth IRA contribution as a traditional IRA contribution, or vice versa.
- You are the beneficiary of an Ed IRA **and** you received distributions from an Ed IRA in 2000.

TIP You are **not** required to file Form 8606 solely to report contributions to Roth IRAs. But see **What Records Must I Keep?** on page 3.

1998 Roth IRA Conversions

If you converted a traditional IRA to a Roth IRA in 1998 and are reporting the taxable portion of the conversion over 4 years, the 2000 taxable portion generally is the same amount as you reported on your 1998 Form 8606, line 17. However, if you received a Roth IRA distribution in 1998 or 1999, the 2000 taxable portion cannot exceed one-half of the amount from your 1998 Form 8606, line 16, reduced by the sum of line 22 of that Form 8606 and line 21 of your 1999 Form 8606.

How To Report

Report the 2000 taxable portion of your 1998 Roth IRA conversion as follows.

- If you did not receive a Roth IRA distribution in 2000, include the 2000 taxable portion on Form 1040, line 15b; Form 1040A, line 11b; or Form 1040NR, line 16b. **Do not** file Form 8606 unless you are otherwise required to do so.
- If you received a Roth IRA distribution in 2000, complete lines 17 through 19 of Form 8606. If line 19 is zero, **do not** complete the rest of Part III and include the 2000 taxable portion on Form 1040, line 15b; Form 1040A, line 11b; or Form 1040NR,

line 16b. If line 19 is more than zero, complete the rest of Part III. The 2000 taxable portion will be figured on line 20c and included in the total on line 27. Include the total from line 27 on Form 1040, line 15b; Form 1040A, line 11b; or Form 1040NR, line 16b.

Death of Roth IRA owner. If the owner of the Roth IRA died in 2000, the entire amount not taxed in 1998 and 1999 generally must be reported on the decedent's final tax return. However, a surviving spouse who acquires the entire interest in all of the decedent's Roth IRAs may elect to continue to report the taxable amount over the remaining 2 tax years. To make the election, attach a statement to the surviving spouse's timely filed 2000 tax return (and to the decedent's final return, if a joint return is not filed). Include the following items on the election statement.

- A statement that the surviving spouse elects to continue to report the taxable portion from the decedent's 1998 Roth IRA conversion over the remaining 2 tax years.
- The names and social security numbers (SSNs) of the surviving spouse and the decedent.
- The total taxable amount of the decedent's 1998 Roth IRA conversion from the decedent's 1998 Form 8606, line 16.
- The amounts, if any, reported on the decedent's 1998 Form 8606, line 22, and 1999 Form 8606, line 21.

The surviving spouse must report as a taxable IRA distribution for 2000 the same amount as the decedent would have reported, and in the same manner, on the surviving spouse's tax return. See Pub. 590 for details.

When and Where To File

File Form 8606 with your 2000 Form 1040, 1040A, or 1040NR. If you are not required to file an income tax return but are required to file Form 8606, sign Form 8606 and send it to the Internal Revenue Service at the

same time and place you would otherwise file Form 1040, 1040A, or 1040NR.

Definitions

Traditional IRAs

A traditional IRA is an individual retirement account or an individual retirement annuity. It includes a SEP IRA but does not include a SIMPLE IRA, Ed IRA, or Roth IRA.

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

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

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

SIMPLE IRAs

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

Education (Ed) IRAs

An Ed IRA is not a qualified retirement plan, but is a trust or custodial account created exclusively for paying the qualified higher education expenses of a designated beneficiary. See Pub. 590 for details on Ed IRAs.

Roth IRAs

A Roth IRA is similar to a traditional IRA but has the following features.

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

Generally, a **qualified distribution** is any distribution made:

- On or after age 59½,
- Upon death,
- Due to disability, or
- For qualified first-time homebuyer expenses.

However, any distribution made during the 5-year period beginning with the first year for which you made a Roth IRA contribution or conversion is **not** a qualified distribution, and may be taxable. A nonqualified distribution is any distribution that does not meet the conditions of a qualified distribution. Because 1998 was the first year for which Roth IRA contributions or conversions could be made, **all** Roth IRA distributions prior to 2003 are nonqualified distributions.

Contributions. You can contribute to a Roth IRA only if your 2000 modified adjusted gross income (AGI) for Roth IRA purposes is less than:

- \$10,000 if married filing separately and you lived with your spouse at any time in 2000;
- \$160,000 if married filing jointly; or
- \$110,000 if single, head of household, or qualifying widow(er), or if married filing separately and you did not live with your spouse at any time in 2000.

Use the **Maximum Roth IRA Contribution Worksheet** below to figure the maximum amount you can contribute to a Roth IRA for 2000.



If you contributed more than your maximum amount to a Roth IRA, see

Recharacterizations on page 4.

Modified AGI for Roth IRA

purposes. Refigure your AGI from Form 1040, line 33; Form 1040A, line 19; or Form 1040NR, line 33; by:

1. Subtracting any amount due to Roth IRA conversions included on Form 1040, line 15b; Form 1040A, line 11b; or Form 1040NR, line 16b; and

2. Adding the following:

- IRA deduction from Form 1040, line 23; Form 1040A, line 16; or Form 1040NR, line 24;
- Student loan interest deduction from Form 1040, line 24; Form 1040A, line 17; or Form 1040NR, line 25;
- Exclusion of interest from **Form 8815**, Exclusion of Interest From Series EE and I U.S. Savings Bonds Issued After 1989;
- Exclusion of employer-provided adoption benefits from **Form 8839**, Qualified Adoption Expenses;
- Foreign earned income exclusion from **Form 2555**, Foreign Earned

Maximum Roth IRA Contribution Worksheet (keep for your records)



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

1	If married filing jointly enter \$2,000. All others, enter the smaller of \$2,000 or your taxable compensation (defined on page 3)	1	_____
2	Enter your total contributions to traditional IRAs for 2000	2	_____
3	Subtract line 2 from line 1	3	_____
4	Enter: \$160,000 if married filing jointly; \$10,000 if married filing separately and you lived with your spouse at any time in 2000. All other filers, enter \$110,000	4	_____
5	Enter your modified AGI for Roth IRA purposes (see above)	5	_____
6	Subtract line 5 from line 4. If zero or less, stop here ; you may not contribute to a Roth IRA for 2000. See Recharacterizations on page 4 if you made Roth IRA contributions for 2000	6	_____
7	If line 4 above is \$110,000, enter \$15,000; otherwise, enter \$10,000. If line 6 is more than or equal to line 7, skip lines 8 and 9 and enter the amount from line 3 on line 10	7	_____
8	Divide line 6 by line 7 and enter the result as a decimal (rounded to at least 3 places). Do not enter more than "1.000"	8	_____
9	Multiply line 1 by line 8. If the result is not a multiple of \$10, round it up to the next multiple of \$10 (for example, round \$490.30 to \$500). Enter the result, but not less than \$200	9	_____
10	Maximum 2000 Roth IRA Contribution. Enter the smaller of line 3 or line 9. See Recharacterizations on page 4 if you contributed more than this amount to Roth IRAs for 2000	10	_____

Income, or **Form 2555-EZ**, Foreign Earned Income Exclusion; and

- Foreign housing exclusion or deduction from Form 2555.



*When figuring modified AGI for Roth IRA purposes, you may have to refigure items based on modified AGI, such as taxable social security benefits and passive activity losses allowed under the special allowance for rental real estate activities. See **Can I Contribute to a Roth IRA** in Pub. 590 for details.*

Distributions. See the instructions for Part III beginning on page 6.

Overall Contribution Limit for Traditional and Roth IRAs

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



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

Taxable compensation includes the following.

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

See Pub. 590 for details.

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

Amending Form 8606

After you file your return, you may change a nondeductible contribution to a traditional IRA to a deductible contribution or vice versa. You also may be able to make a recharacterization (see page 4). If necessary, complete a new Form 8606 showing the revised information and file it with **Form 1040X**, Amended U.S. Individual Income Tax Return.

Penalty for Not Filing

If you are required to file Form 8606 for 2000 but do not do so, you must pay a \$50 penalty, unless you can show reasonable cause.

Penalty for Overstatement

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

What Records Must I Keep?

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

- Page 1 of Forms 1040 (or Forms 1040A, 1040NR, or 1040-T) filed for each year you made a nondeductible contribution to a traditional IRA.
- Forms 8606 and any supporting statements and worksheets for all applicable years.
- Forms 5498 or similar statements you received each year showing contributions you made to a traditional IRA, Roth IRA, or Ed IRA.
- Forms 5498 or similar statements you received showing the value of your traditional IRAs and Ed IRAs for each year you received a distribution.
- Forms 1099-R or W-2P you received for each year you received a distribution.

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

Specific Instructions

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

Part I—Traditional and SIMPLE IRAs

Line 1

If you used the **IRA Deduction Worksheet** in the Form 1040 or 1040A instructions, subtract line 10 of the worksheet (line 8 of the Form 1040A worksheet) (or the amount you chose to deduct on Form 1040, line 23, or Form 1040A, line 16, if less) from the **smaller** of line 8 or line 9 of the worksheet (line 6 or line 7 of the Form 1040A worksheet). Enter the result on line 1 of Form 8606. You cannot deduct the amount included on line 1.

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

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

Do not include on line 1 contributions that were returned to you with the related earnings (or less any loss). See the instructions for line 7.

Line 2

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

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

Line 4

If you made contributions for 2000 in 2000 and 2001 and you have both deductible and nondeductible

contributions, you may choose to treat the contributions made in 2000 first as nondeductible contributions and then as deductible contributions, or vice versa. But the amount on line 1 minus the amount on line 4 cannot be more than the contributions you actually made in 2000.

Example. You made contributions of \$1,000 in 2000 and \$1,000 in 2001, of which \$1,500 are deductible and \$500 are nondeductible. You choose \$500 of your contribution in 2000 to be nondeductible. You enter the \$500 on line 1, but not line 4, and it becomes part of your basis for 2000.


Although the contributions for 2000 that you made from January 1, 2001, through April 16, 2001, to traditional IRAs can be treated as nondeductible, they are not included in figuring the nontaxable part of any distributions you received in 2000.

Line 6

Enter the total value of **all** your traditional IRAs and SIMPLE IRAs as of December 31, 2000, **plus** any outstanding rollovers. You should receive a statement by January 31, 2001, showing the value of each IRA on December 31, 2000. However, if you recharacterized any amounts, enter on line 6 the total value taking into account all recharacterizations, including recharacterizations made after December 31, 2000.

For line 6, a **rollover** is a tax-free distribution from one traditional or SIMPLE IRA that is contributed to another traditional or SIMPLE IRA. The rollover must be completed within 60 days of receiving the distribution from the first IRA. An **outstanding rollover** is any amount distributed from one traditional or SIMPLE IRA within 60 days before the end of 2000 (from November 2 through December 31) that was rolled over to another traditional or SIMPLE IRA after December 31, 2000, but within the 60-day rollover period.

Line 7

 *If you received a distribution in 2000 from a traditional or SIMPLE IRA and you also made contributions for 2000 to a traditional IRA that may not be fully deductible because of the income limits, you must make a special computation before completing this form. For details, including how to*

*complete Form 8606, see **Are Distributions Taxable?** in Chapter 1 of Pub. 590.*

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

1. Distributions from a traditional or SIMPLE IRA in 2000 that you converted to a Roth IRA.

2. Distributions you received from a traditional or SIMPLE IRA in 2000 and rolled over to another traditional or SIMPLE IRA by December 31, 2000.

3. Outstanding rollovers included on line 6.

4. Contributions you do not deduct that were distributed (returned to you) with the related earnings (or less any loss) by the due date of your tax return, including extensions. You may **not** deduct any loss that occurred. Include any related earnings in income for the year in which you made the contribution. For contributions made in 2000, report the total amount withdrawn on line 15a and any earnings on line 15b if filing Form 1040; lines 11a and 11b if filing Form 1040A; or lines 16a and 16b if filing Form 1040NR. Also, see Form 5329 if you were under age 59½ at the time of the distribution. Withdrawn contributions are treated as if they were never contributed for purposes of figuring basis and therefore are not reported on Form 8606.

5. If your contributions to traditional IRAs for 2000 were \$2,000 or less, any portion of those contributions not allowable as a deduction (without regard to the modified adjusted gross income limitation), and that you did not deduct, that were returned to you after the due date of your return, including extensions.

Line 8

If you converted part or all of your traditional or SIMPLE IRAs to Roth IRAs in 2000, complete lines 14a through 14c before completing line 8. Then enter the total of lines 6, 7, and 14c on line 8.

Line 11

If you converted part or all of your traditional or SIMPLE IRAs to Roth IRAs in 2000, multiply line 9 by line 14c and add the result to the amount on line 10. Then subtract that total from line 5 and enter the result on line 11.

Part II—2000 Conversions From Traditional or SIMPLE IRAs to Roth IRAs

Limit on number of conversions.

If you converted an amount from a traditional or SIMPLE IRA to a Roth IRA in 2000 and then recharacterized the amount back to a traditional or SIMPLE IRA, you may not reconvert that amount until the **later** of January 1, 2001, or 30 days after the recharacterization. See Pub. 590 and Regulations section 1.408A-5 for details.



You may not convert any amount from your traditional IRAs to Roth IRAs in 2000 if (a) your modified AGI for Roth IRA purposes (see page 2) is more than \$100,000 or (b) your filing status is married filing separately and you lived with your spouse at any time in 2000. If you erroneously made a conversion, you must recharacterize the converted amount.

Recharacterizations

Generally, you may recharacterize (correct) an IRA contribution or Roth IRA conversion by making a trustee-to-trustee transfer from one IRA to another type of IRA. Trustee-to-trustee transfers are made directly between financial institutions or within the same financial institution. You generally must make the transfer by the due date of your return (including extensions) and reflect it on your return. However, if you timely filed your return without making the transfer, you still may make the transfer within 6 months of the due date of your return, excluding extensions. If necessary, file an amended return reflecting the transfer. Write "Filed pursuant to section 301.9100-2" on the amended return and file it at the same place you filed the original return.

There are three types of recharacterizations.

1. You converted an amount from a traditional or SIMPLE IRA to a Roth IRA and later recharacterize part or all of it back to a traditional or SIMPLE IRA.

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

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

Any recharacterized conversion will be treated as though it had not occurred. Any recharacterized contributions will be treated as having been contributed to the second IRA and not the first IRA. You cannot take a deduction for a contribution to a traditional IRA if the amount is later recharacterized. The amount transferred **must** include related earnings or be reduced by any loss.

Completion of Form 8606 for Recharacterizations

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

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

1. On line 14a, report the amount you originally converted.

2. On line 14b, report the portion of the amount you originally converted that you recharacterized, excluding earnings or any loss.

3. On line 14c, show the net result after any changes. If you recharacterized the entire amount you converted, lines 14a and 14b will be the same and line 14c will be zero.

4. If line 14c is more than zero, complete the rest of Part II as instructed.

Statement explaining recharacterization. Attach a statement to Form 8606 explaining the recharacterization. For example, for a recharacterized contribution, attach a statement that shows the total amount recharacterized, the original contribution, the earnings or loss, and the amount that is now a deductible traditional IRA contribution, if any.

If you recharacterized contributions to or from a Roth IRA, complete Part III. Enter on line 18b the amount originally contributed to a Roth IRA

and on line 18c the amount recharacterized, excluding earnings or any loss. If you received a distribution from a Roth IRA in 2000, complete the rest of Part III as instructed.

Note: *You may receive a Form 1099-R for each conversion (showing the distribution from the traditional or SIMPLE IRA) and a Form 1099-R for each recharacterization (showing the distribution from the IRA). Or, you may receive one Form 1099-R showing the net results of all your transactions, with instructions on how to enter amounts on Form 8606 and on your tax return. In either case, include the gross distribution from box 1 of all Forms 1099-R on Form 1040, line 15a; Form 1040A, line 11a; or Form 1040NR, line 16a. Also include the gross amount of any distribution reported on Form 8606 even if you did not receive a Form 1099-R before filing your tax return. Because the Forms 1099-R reflect the fair market value at the time of the distribution, the amounts that you enter on this line of your tax return will likely differ from the amounts you enter on lines 14a and 14b of Form 8606. Attach a statement explaining the difference. If you **do not** receive a Form 1099-R before you file your return, use other appropriate records and include the correct amounts on Form 8606 and Form 1040, 1040A, or 1040NR.*

Example. On May 4, 2000, Jodi (who is single) converted \$100,000 from a traditional IRA to a Roth IRA. Her basis in the traditional IRA was \$10,000. On July 9, 2000, Jodi contributed \$2,000 for 2000 to a second Roth IRA.

On March 31, 2001, Jodi determined that her 2000 modified AGI for Roth IRA purposes is \$111,000, which is more than the permitted limits for Roth IRA contributions and conversions. Jodi recharacterizes the conversion back to a traditional IRA and recharacterizes the Roth IRA contribution to a traditional IRA.

As of March 31, 2001, the first Roth IRA is worth \$109,000 and the second Roth IRA is worth \$1,900. Jodi makes a trustee-to-trustee transfer of \$109,000 from the first Roth IRA to a traditional IRA to recharacterize the conversion. Jodi also makes a trustee-to-trustee transfer of \$1,900 from the second Roth IRA to a traditional IRA (as a

nondeductible contribution) to recharacterize the contribution.

Completion of Form 8606. Jodi enters her nondeductible traditional IRA contribution of \$2,000 (not \$1,900) on line 1. Her previous traditional IRA basis of \$10,000 is reported on line 2. Because Jodi did not receive any other distributions from her traditional IRAs in 2000, she then completes only lines 3 and 12 (entering \$12,000) as instructed.

In Part II, Jodi enters \$100,000 on line 14a. She also enters \$100,000 on line 14b and -0- on line 14c. She does not include the \$9,000 of earnings on line 14b (nor would she have reduced the amount entered on line 14b if a loss had occurred).

In Part III, Jodi is only required to complete lines 18b through 18d because she did not receive any Roth IRA distributions in 2000 other than the recharacterizations. Jodi enters \$2,000 on line 18b, \$2,000 (not \$1,900) as a negative amount on line 18c, and -0- on line 18d.

In January 2001, Jodi receives a Form 1099-R for the conversion of \$100,000. In January 2002, she will receive two more Forms 1099-R for the recharacterizations showing distributions of \$109,000 and \$1,900. On her 2000 Form 1040, line 15a, Jodi enters \$210,900, the total of all three of the distributions. She enters -0- on line 15b because there is no taxable amount.

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

- The conversion amount of \$100,000 was recharacterized and the amount transferred was \$109,000 because there was a \$9,000 gain.
- Her previous basis of \$10,000 is reported on line 2 of Form 8606.
- A Roth IRA contribution of \$2,000 was recharacterized to a traditional IRA and the amount transferred was \$1,900 because there was a \$100 loss. She also indicates that no amount is deductible.

When Jodi receives the two 2001 Forms 1099-R in January 2002, she does not report them on her 2001 tax return. The Forms 1099-R represent recharacterizations of a conversion and a contribution made for 2000 and were reported on her 2000 tax return.

Lines 14a Through 14c

If in 2000 you converted amounts from a traditional or SIMPLE IRA to

a Roth IRA, complete lines 14a through 14c as follows. Enter on line 14a the total of all amounts converted in 2000. Enter on line 14b the portion of any amount on line 14a that you recharacterized in 2000, or in 2001 by the due date of your tax return, including extensions. **Do not** include on line 14b related earnings that were transferred with the recharacterized amount or reduce the amount on line 14b if the amount transferred was less because of a loss that occurred while the amount was in the Roth IRA. See the earlier example for details.

Line 15

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

Part III—Distributions From Roth IRAs

Complete Part III to figure the taxable part of your 2000 Roth IRA distributions (or to report recharacterized contributions). Distributions from Roth IRAs are applied in the following order.

1. Roth IRA contributions. These amounts represent a return of your basis (amounts you contributed) and are not taxable upon distribution. This amount is figured on line 18d.
2. Accelerated income inclusion. If, in 1998, you converted amounts from a traditional IRA to a Roth IRA and are reporting the taxable amount over 4 years, the amount you must include in income for 2000 may be more than one-fourth of the taxable amount. The accelerated income is figured on line 21.
3. Amounts converted from traditional or SIMPLE IRAs to Roth IRAs. These amounts represent a return of basis and are not included in gross income upon distribution.
4. Earnings. Any remaining amount is earnings, which are taxable because the distribution is not a qualified distribution (see page 2).

Line 17

Do not include on line 17 distributions that were rolled over to another Roth IRA within 60 days. Also, do not

Worksheet for Lines 20b and 20c

1	Enter the amount from your 1998 Form 8606, line 16	1	_____
2	Enter one-half of line 1 above	2	_____
3	Enter the amount, if any, from your 1998 Form 8606, line 22	3	_____
4	Enter the amount, if any, from your 1999 Form 8606, line 21	4	_____
5	Add lines 2 through 4. Enter here and on Form 8606, line 20b	5	_____
6	Subtract line 5 from line 1	6	_____
7	Enter one-half of line 2 above	7	_____
8	Enter the smaller of line 6 or line 7 here and on Form 8606, line 20c	8	_____

include excess contributions that were distributed (returned to you) with the related earnings (or less any loss) by the due date of your tax return, including extensions. You may **not** deduct any loss that occurred. Include any related earnings in income for the year in which you made the contribution. For contributions made in 2000, report the total amount withdrawn on line 15a and any earnings on line 15b if filing Form 1040; lines 11a and 11b if filing Form 1040A; or lines 16a and 16b if filing Form 1040NR. Also see Form 5329 if you were under age 59½ at the time of a distribution with related earnings. Withdrawn excess contributions are treated as if they were never contributed for purposes of figuring basis and therefore are not reported on Form 8606.

Line 18a

Figure the amount to enter on line 18a as follows.

1. Figure the excess of your Roth IRA contributions for 1998 (including contributions made in 1999 for 1998), adjusted for any recharacterizations, over the amount of any Roth IRA distributions you made in 1998.
2. Add the amount figured in 1 above and your Roth IRA contributions for 1999 (including contributions made in 2000 for 1999).
3. Figure the excess of the amount figured in 2 above over the amount of any Roth IRA distributions you made in 1999. Enter the result on line 18a. This is your basis in Roth IRA contributions for 1998 and 1999.

If you completed Part III of Form 8606 for 1999, you can find the amount to enter by figuring the excess of line 18d of that Form 8606 over line 17 of that Form 8606. This amount can also be found on line 5 of the **Roth IRA Basis Worksheet** on page 6 of your 1999 Instructions for Form 8606.

Line 18b

Do not include on line 18b excess contributions that were distributed (returned to you) with the related earnings (or less any loss) by the due date of your tax return, including extensions. See the instructions for line 17.

Line 18c

Example of a contribution to a traditional IRA recharacterized to a Roth IRA. On July 9, 2000, Ellen contributed \$2,000 to a traditional IRA. On April 10, 2001, she recharacterized the contribution (which was then worth \$1,500) to a Roth IRA. Ellen enters -0- on line 18b and \$2,000 (not \$1,500) on line 18c.

Example of a contribution to a Roth IRA recharacterized to a traditional IRA. On June 14, 2000, Steven contributed \$2,000 to a Roth IRA. On March 13, 2001, he recharacterized the contribution (which was then worth \$2,500) to a traditional IRA. Steven enters \$2,000 on line 18b and \$2,000 as a negative amount (not \$2,500) on line 18c.

Lines 20b and 20c

Complete the worksheet on this page to figure the amount to enter on lines 20b and 20c. Line 20a shows the total portion of your 1998 Roth IRA conversion that is taxable over 4 years. The amount figured for line 20b is the portion of line 20a that was taxable in 1998 and 1999. The amount figured for line 20c is the portion of line 20a that is taxable for 2000 without regard to any 2000 Roth IRA distribution. Any remaining portion of line 20a is taxed in 2000 on line 21 to the extent of any remaining distribution on line 19.

If the owner of a Roth IRA died in 2000, the entire excess of line 20a over line 20b generally must be included in income in 2000. However, a surviving spouse may be able to elect to continue reporting the taxable

income over 4 years. See **1998 Roth IRA Conversions** on page 1 and Pub. 590 for details.

Line 23

Enter the excess, if any, of the sum of the amounts from your 1998 Form 8606, line 14c, and your 1999 Form 8606, line 14c, over the total of the following amounts.

- The amount, if any, of your 1998 Form 8606, line 22.
- The **smaller** of line 23 or line 24 of your 1998 Form 8606.
- The amount, if any, on your 1999 Form 8606, line 21.
- The **smaller** of line 22 or line 25 of your 1999 Form 8606.

This is your basis in Roth IRA conversions for 1998 and 1999.

If you completed all of Part III of Form 8606 for 1999, you can find the amount to enter on line 23 by figuring the excess of line 25 of that Form 8606 over line 22 of that Form 8606. This amount can also be found on line 12 of the **Roth IRA Basis Worksheet** on page 6 of your 1999 Instructions for Form 8606.

Additional 10% Tax

There generally is an additional 10% tax on 2000 distributions from a Roth IRA that are shown on line 19 if you were under 59½ at the time of the distribution. The additional tax is figured in Part I of Form 5329.

Part IV—Distributions From Education (Ed) IRAs



If the total Ed IRA contributions made in 2000 on behalf of the beneficiary are more than \$500 (or more than the total amount allowed to be contributed by all contributors to the account, if less), the excess contributions (plus related earnings) must be distributed by the due date (including extensions) of the beneficiary's tax return (or by April 16, 2001, if the beneficiary is not required to file a return). Otherwise, the beneficiary is subject to the excess contributions penalty. See Pub. 590 and Form 5329 for details, including how to figure the penalty.

Line 28

Enter the total Ed IRA distributions (withdrawals) received in 2000. Do not include amounts rolled over within 60 days (only one rollover is allowed

Ed IRA Worksheet (keep for your records)

If line 28 is more than line 29 on Form 8606, use this worksheet to figure the amount of taxable distributions you received from Ed IRAs in 2000. Also use this worksheet to figure your year-end basis in each Ed IRA.



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

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

1	Enter the amount contributed to this Ed IRA in 2000	1	_____
2	Enter your basis in this Ed IRA as of December 31, 1999. See instructions	2	_____
3	Add lines 1 and 2	3	_____
4	Did you receive any distributions in 2000 from this Ed IRA? <input type="checkbox"/> Yes. Go to line 5. <input type="checkbox"/> No. Enter the amount from line 3 on line 17 and do not complete the rest of this worksheet for this Ed IRA.		
5	Enter the total amount of all distributions you received from this Ed IRA in 2000. Do not include rollovers	5	_____
6	Enter the amount of qualified higher education expenses from Form 8606, line 29, attributable to distributions from this Ed IRA	6	_____
7	Subtract line 6 from line 5	7	_____
8	Enter the total value of this Ed IRA as of December 31, 2000, plus any outstanding rollovers. See instructions	8	_____
9	Add lines 5 and 8	9	_____
10	Divide line 3 by line 9 and enter the result as a decimal (rounded to at least 3 places). Do not enter more than "1.000"	10	_____
11	Multiply line 5 by line 10. This is the nontaxable portion of your distributions from this Ed IRA	11	_____
	<i>Note: If line 7 is zero, skip lines 12 through 15, enter -0- on line 16, and go to line 17.</i>		
12	Subtract line 11 from line 5	12	_____
13	Did you check Yes on line 29 of the form? <input type="checkbox"/> Yes. Enter the amount from line 12 on line 16 and go to line 17. <input type="checkbox"/> No. Go to line 14.		
14	Divide line 6 by line 5 and enter the result as a decimal (rounded to at least 3 places). Do not enter more than "1.000"	14	_____
15	Multiply line 12 by line 14	15	_____
16	Subtract line 15 from line 12. This is the amount of taxable distributions you received from this Ed IRA in 2000 . Enter the result here and include it on line 30 of Form 8606	16	_____
17	Subtract line 11 from line 3. This is your basis in this Ed IRA as of December 31, 2000	17	_____

during any 12-month period). Also, do not include contributions that were distributed with the related earnings (or less any loss) by the due date of the beneficiary's tax return, including extensions (or by April 16, 2001, if the beneficiary is not required to file a tax return). **Do not** deduct any loss that occurred. Report the total amount withdrawn on line 15a and any related earnings on line 15b if filing Form 1040; lines 11a and 11b if filing Form 1040A; or lines 16a and 16b if filing Form 1040NR. Withdrawn contributions are treated as if they were never contributed for purposes of figuring basis and therefore are not reported on Form 8606.

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

was contributed. Also, report the amount of the rollover on Form 1040, line 15a; Form 1040A, line 11a; or Form 1040NR, line 16a. See Pub. 590 for details.

Line 29

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

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

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

Line 30

Instructions for Ed IRA Worksheet

Line 2. Your basis in each Ed IRA as of December 31, 1999, is the total of all contributions to the Ed IRA in

1998 and 1999, less the nontaxable portion of any distributions you received in 1998 and 1999. This amount can also be found on line 17 of your **Ed IRA Worksheet** for this Ed IRA, on page 7 of the 1999 Instructions for Form 8606.

Line 8. Enter the total value of this Ed IRA as of December 31, 2000, plus any outstanding rollovers contributed to the account after December 31, 1999, but before the end of the 60-day rollover period. You should receive a statement by January 31, 2001, for each Ed IRA showing the value on December 31, 2000.

A **rollover** is a tax-free distribution from one Ed IRA that is contributed to another Ed IRA. The rollover must be completed within 60 days of receiving the distribution from the first Ed IRA. An **outstanding rollover** is any amount distributed from one Ed IRA within 60 days before the end of 2000 (November 2 through December 31) that was rolled over to another Ed IRA after December 31, 2000, but within the 60-day rollover period.

Additional 10% Tax

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

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

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

See the Instructions for Form 5329 for details.

Paperwork Reduction Act Notice.

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

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

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping, 53 min.; **Learning about the law or the form**, 2 hr.; **Preparing the form**, 1 hr., 46 min.; **Copying, assembling, and sending the form to the IRS**, 1 hr., 43 min.

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