Department of the Treasury
Internal Revenue Service

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Individual Retirement Arrangements (IRAs)

(Including Roth IRAs and Education IRAs)

For use in preparing

2000 Returns

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Contents

Important Changes

Modified AGI limit for traditional IRA contributions increased. For 2000, if you are covered by a retirement plan at work, your deduction for contributions to a traditional IRA will be reduced (phased out) if your modified adjusted gross income (AGI) is between:

- $52,000 and $62,000 for a married couple filing a joint return or a qualifying widow(er),
- $32,000 and $42,000 for a single individual or head of household, or
- $–0– and $10,000 for a married individual filing a separate return.

For all filing statuses other than married filing a separate return, the upper and lower limits of the phaseout range increased by $1,000. See *How Much Can I Deduct?* in chapter 1.

New method for calculating net income takes losses into account. A new method for calculating net income associated with returned contributions and recharacterized contributions allows net income to be a negative amount. If no deduction is claimed for a contribution, there is no penalty if you withdraw the contribution or if you recharacterize it and withdraw or transfer (in the case of a recharacterization) any net income earned on the contribution by the due date of your return (including extensions) for the year. Prior to 2000, if your contribution suffered a loss while it was in an IRA, it was only taken into account in calculating net income for purposes of a recharacterization.

Beginning in 2000, the new calculation method allows you to take into account any loss on a returned or recharacterized contribution while it was in the IRA when calculating the amount of net income that must be withdrawn or recharacterized. If there was a loss in either case, net income may be a negative amount. See *Excess Contributions Withdrawn by Due Date of Return* in Chapter 1 and *Recharacterizations* in Chapter 2.

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

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. See *Spousal IRA limit* under *How Much Can Be Contributed?* in chapter 1.

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.

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

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

For traditional IRAs, see *Higher education expenses* under *Age 59½ Rule* in chapter 1.

For Roth IRAs, see *Additional Tax on Early Distributions* under *What Distributions Are Not Qualified Distributions* in chapter 2.

No additional tax on early distributions from traditional or Roth IRAs 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 distributions.

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 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 distributions. 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, making withdrawals from it, and receiving distributions 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.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

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We respond to many letters by telephone. Therefore, it would be helpful if you would include your daytime phone number, including the area code, in your correspondence.

Useful Items

You may want to see:

Publications

- ☐ **560** Retirement Plans for Small Business (Including SEP, SIMPLE, and Qualified Plans)
- ☐ **571** Tax-Sheltered Annuity Plans (403(b) Plans)
- ☐ **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 a “traditional IRA.” Two advantages of a traditional IRA are:

1) You may be able to deduct some or all of your contributions to it, depending on your circumstances, and

2) 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 are covered by any other retirement plan. However, you may not be able to deduct all of your contributions if you or your spouse are covered by an employer retirement plan. See *How Much Can I Deduct?,* later.

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.

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 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 Contributions Be Made?,* later.

How Can a Traditional IRA Be Set Up?

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) They stop earning interest when 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.

2) 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 *Early Distributions,* 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.

Required Disclosures

The trustee or issuer (sometimes called the sponsor) of your 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.

What If I Inherit an IRA?

If you inherit a traditional IRA, it is subject to special rules.

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

Inherited from spouse. If you inherit a traditional IRA from your deceased spouse, you can generally roll it over into another traditional IRA established for you or you can choose to treat the inherited IRA as your own.

You will be considered to have chosen to treat it as your own if:

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

Inherited from someone other than spouse. If you inherit a traditional IRA from anyone other than your deceased spouse, you cannot treat the inherited IRA as your own. This means that contributions (including rollover contributions) cannot be made to the IRA and you cannot roll over any amounts out of the inherited IRA. But, like the original owner, you generally will not owe tax on the assets in the IRA until you receive distributions from it. You must begin receiving distributions from the IRA under the rules for distributions that apply to beneficiaries.

More information. For more information about rollovers, required distributions, and inherited IRAs, see:

- *Rollovers,* later in this chapter under *Can I Move Retirement Plan Assets?,*
- *When Must I Withdraw IRA Assets? (Required Distributions),* later in this chapter under *When Can I Withdraw or Use IRA Assets?,* and
- The discussion of beneficiaries later in this chapter under *When Must I Withdraw IRA Assets? (Required Distributions),* and the discussion of inherited IRAs under *Are Distributions Taxable?*.

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 discussions of rollovers and other transfers later in this chapter under *Can I Move Retirement Plan Assets?*.

Contributions can be made to your traditional IRA for each year that you receive compensation and have not reached age 70½. 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 cannot 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.)

CAUTION

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 2000. His IRA contributions for 2000 are limited to $2,000.

Danny, a college student working part time, earns $1,500 in 2000. His IRA contributions for 2000 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).

CAUTION

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).

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.

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

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 2000. 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 2000. Although he can contribute up to $2,000 for 2000, he contributes only $1,000. Justin cannot make up the $1,000 ($2,000 – $1,000) difference between his actual contributions for 2000 and his 2000 limit by contributing $1,000 more than the limit in 2001 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.

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

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 part of your contribution.

Trustees' fees. Trustees' administrative fees ***are not subject to*** the contribution 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 2000 must be made by April 16, 2001.

Designating year for which contribution is made. If an amount is contributed to your traditional IRA between January 1 and April 16, 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:

1) The contributions to your traditional IRA for the year, or

2) The general limit (or the spousal IRA limit, if applicable) explained earlier under *How Much Can Be Contributed?*

However, if you or your spouse were covered by an employer retirement plan, you may not be able to deduct this amount. See *Limit if Covered by Employer Plan,* later.

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

Brokers' commissions. These commissions are part of your IRA contribution and are not deductible as a miscellaneous itemized deduction on Schedule A (Form 1040).

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 total contributions to one or more of your traditional IRAs of up to the lesser of:

1) $2,000, or

2) 100% of your compensation.

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 lesser of:

1) $2,000, or

2) The total compensation includible in the gross income of both spouses for the year reduced by the following two amounts.

   a) The IRA deduction for the year of the spouse with the greater compensation.

   b) Any contributions for the year to a Roth IRA on behalf of the spouse with the greater compensation.

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

Note. 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 only the contributions to your own IRA and your deductions are subject to the rules for single individuals.

Covered by an employer retirement plan. If you or your spouse were covered by an employer retirement plan at any time during the year for which contributions were made, your deduction may be further limited. This is discussed later under *Limit if Covered by Employer Plan.* Limits on the amount you can deduct do not affect the amount that can be contributed.

Form 5498. You should receive by June 1, 2001, Form 5498 (or a similar statement) from the sponsor of your IRA, showing all the contributions made to your IRA for 2000.

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 be checked if you were covered.

Reservists and volunteer firefighters should also see *Situations in Which You Are Not Covered,* later.

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

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

For Which Year(s) Are You Covered?

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

Tax year. Your tax year is the annual accounting period you use to keep records and report income and expenses on your income tax return. For most people, the tax year is the calendar 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 covered by a defined contribution plan for a tax year if amounts are contributed or allocated to your account for the plan year that ends with or within that tax year. See *Situations in Which You Are Not Covered,* later.

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, 1999. The contribution for the plan year ending on June 30, 2000, is made February 15, 2001. Because an amount is contributed to Bob's account **for** the plan year, Bob is covered by the plan for his 2000 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.

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:			
		• **Single** • **Head of Household**	• **Married Filing Jointly** (even if your spouse <u>is not</u> covered by a plan at work) • **Qualifying Widow(er)**	**Married Filing Separately****	**Married Filing Jointly** (and your spouse <u>is</u> covered by a plan at work)	• **Single** • **Head of Household**	• **Married Filing Jointly or Separately** (and spouse <u>is</u> <u>not</u> covered by a plan at work) • **Qualifying Widow(er)**	**Married Filing Separately** (and your spouse <u>is</u> covered by a plan at work)***
At Least	But Less Than	You Can Take	You Can Take	You Can Take	You Can Take	You Can Take	You Can Take	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	$32,000.00	Full deduction	Full deduction	No deduction	Full deduction			No deduction
$32,000.00	$42,000.00	Partial deduction	Full deduction	No deduction	Full deduction			No deduction
$42,000.00	$52,000.00	No deduction	Full deduction	No deduction	Full deduction			No deduction
$52,000.00	$62,000.00	No deduction	Partial deduction	No deduction	Full deduction			No deduction
$62,000.00	$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 15 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 <u>did not</u> live with your spouse <u>at any time</u> 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 <u>if</u> you <u>did not</u> live with your spouse <u>at any time</u> during the year.

Defined benefit plans include pension plans and annuity plans.

If you are eligible to participate in your employer's defined benefit plan for the plan year that ends within your tax year, you are covered by the plan. This rule applies even if you:

- Declined to participate in the plan,
- Did not make a required contribution, or
- Did not perform the minimum service required to accrue a benefit for the year.

Example. Nick, an employee of Company B, is eligible to participate in Company B's defined benefit plan, which has a July 1 to June 30 plan year. Nick leaves Company B on December 30, 1999. Since Nick is eligible to participate in the plan for its year ending June 30, 2000, he is covered by the plan for his 2000 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.

Situations in Which You Are Not Covered

Unless you are covered by another employer plan, you are not covered by an employer plan if you are in one of the situations described below.

Social security or railroad retirement. Coverage under social security or railroad retirement is not coverage under an employer retirement plan.

Benefits from previous employer's plan. If you receive retirement benefits from a previous employer's plan, you are not covered by that 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 covered by the plan. You are not 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 covered by the plan. You are not 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.

Limit If Covered By Employer Plan

As discussed 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. Your deduction may also be affected by social security benefits you received.

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. These amounts vary depending on your filing status.

To determine if your deduction is subject to the phaseout, you must determine your modified adjusted gross income (AGI) and your filing status, as explained under *Deduction Phaseout.* Once you have determined your modified AGI and your filing status, you can use *Table 1.1* to determine if the phaseout applies.

Social Security Recipients

Instead of using *Table 1.1* and the *Worksheet For Reduced IRA Deduction,* later, 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 the worksheets in *Appendix B* to figure your IRA deduction, your nondeductible contribution, and the taxable portion, if any, of your social security benefits. *Appendix B* includes an example with filled-in worksheets to assist you.

Deduction Phaseout

The amount of any reduction in the limit on your IRA deduction (phaseout) depends on whether you or your spouse were covered by an employer retirement plan.

If you were covered. If you were covered by an employer retirement plan and you did not receive any social security retirement benefits, your IRA deduction may be reduced or eliminated entirely depending on your filing status and modified AGI, as shown in *Table A,* below.

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	$32,000 and $42,000	$42,000 or more
Married—joint return, or Qualifying widow(er)	$52,000 and $62,000	$62,000 or more
Married—separate return*	$ 0 and $10,000	$10,000 or more

*See *Lived apart from spouse* under *Filing status,* later.

TIP *For 2001, 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:*

- *$33,000 (a $1,000 increase) and $43,000 for a single individual (or head of household),*
- *$53,000 (a $1,000 increase) and $63,000 for a married couple filing a joint return (or a qualifying widow(er)), or*
- *$–0– (no increase) and $10,000 for a married individual filing a separate return.*

If your spouse is covered. If you are not covered by an employer retirement plan, but your spouse is, and you did not receive any social security benefits, your IRA deduction may be reduced or eliminated entirely depending on your filing status and modified AGI as shown in *Table B* next.

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

*See *Lived apart from spouse* below.

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.*

Lived apart from spouse. If you did not live with your spouse at any time during the year and you file a separate return, your filing status, for this purpose, is single.

Modified adjusted gross income (AGI). How you figure your modified AGI depends on whether you are filing Form 1040 or Form 1040A. If you made contributions to your IRA for 2000 and received a distribution from your IRA in 2000, see *Both contributions for 2000 and distributions in 2000,* later.

CAUTION *Do not assume that your modified AGI is the same as your compensation. Your modified AGI may include income in addition to your compensation such as interest, dividends, and income from IRA distributions.*

Form 1040. If you file Form 1040, refigure the amount on the page 1 "adjusted gross income" line without taking into account any of the following amounts.

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

This is your modified AGI.

Form 1040A. If you file Form 1040A, refigure the amount on the page 1 "adjusted gross income" line without taking into account any of the following amounts.

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

This is your modified AGI.

Income from IRA distributions. If you received distributions in 2000 from one or more traditional IRAs and your traditional IRAs include only deductible contributions, the distributions are fully taxable.

Both contributions for 2000 and distributions in 2000. If **all three** of the following occurred, any IRA distributions you received in 2000 may be partly tax free and partly taxable.

1) You received distributions in 2000 from one or more traditional IRAs – ***AND*** –
2) You made contributions to a traditional IRA for 2000 – ***AND*** –
3) Some of those contributions may be nondeductible contributions depending on whether your IRA deduction for 2000 is reduced.

If all three of the above occurred, 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.*

If at least one of the above did **not** occur, figure your modified AGI as explained earlier under either *Form 1040* or *Form 1040A.*

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, 2000, had not yet been reinvested into another traditional IRA.

Worksheet To Figure Taxable Part of Distribution

Use only if you made contributions to a traditional IRA for 2000 and have to figure the taxable part of your 2000 distributions to determine your modified AGI. See *How Much Can I Deduct?,* earlier.

1)	Enter the basis in your traditional IRA(s) as of 12/31/99	$
2)	Enter the total of all contributions made to your traditional IRAs during 2000 and all contributions made during 2001 that were for 2000, **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 12/31/00 (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 2000. (Do not include outstanding rollovers included on line 4 or any rollovers between traditional IRAs completed by 12/31/00. 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 12/31/00. (See **Note** 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	$

Note. If the amount on line 5 of this worksheet includes an amount converted to a Roth IRA by 12/31/00, 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.

How To Figure Your Reduced IRA Deduction

If you or your spouse is covered by an employer retirement plan and you did not receive any social security benefits, you can figure your reduced IRA deduction by using the *Worksheet for Reduced IRA Deduction,* that follows. The instructions for both Form 1040 and

Form 1040A include similar worksheets that you can use instead of the worksheet in this publication.

If you or your spouse is covered by an employer retirement plan, and you **did** receive any social security benefits, see *Social Security Recipients,* earlier.

Note. If you were married and both you and your spouse contributed to IRAs, figure your deduction and your spouse's deduction separately.

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	$ 32,000	$ 42,000
Married–joint return or Qualifying widow(er)	$ 52,000	$ 62,000
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

*See *Filing Status,* earlier.

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.** Your IRA contributions are not deductible. See *Nondeductible Contributions*.

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 and Roth IRA contributions 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 2000, 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

If you file Form 1040, enter your IRA deductions on line 23 of that form. If you file Form 1040A, enter your IRA deductions on line 16 of that form. You cannot deduct IRA contributions on Form 1040EZ.

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

Nondeductible Contributions

Although your deduction for IRA contributions may be reduced or eliminated, contributions can be made to your IRA of up to the general limit ($2,000 or 100% of compensation, whichever is less) or the spousal IRA limit (whichever applies). The difference between your total permitted contributions and your IRA deduction, if any, is your nondeductible contribution.

Example. Sonny Martin is single. In 2000, 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 contribution for that year. Because he is covered by a retirement plan and his modified AGI is above $42,000, he cannot deduct his $2,000 IRA contribution. However, he designates this contribution as a nondeductible contribution by reporting it on his tax return as explained later under *Reporting Nondeductible Contributions*.

Designating contributions as nondeductible. To designate contributions as nondeductible, you must file Form 8606. (See the filled-in Forms 8606 in *Appendix D*.)

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 contributions.

Tax on earnings on nondeductible contributions. 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.

Cost basis. You will have a cost basis in your IRA if there are nondeductible contributions. Your cost basis is the sum of the nondeductible contributions to your IRA minus any withdrawals or distributions of nondeductible contributions.

CAUTION *Generally, distributions from any of your traditional IRAs will include both taxable and nontaxable (cost basis) amounts. See* Are Distributions Taxable?, *later, for more information.*

RECORDS **Recordkeeping.** There is a recordkeeping worksheet, Appendix A, *Summary Record of Traditional IRA(s) for 2000,* that you can use to keep records of deductible and nondeductible IRA contributions.

You must file Form 8606 to report nondeductible contributions even if you do not have to file a tax return for the year.

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. All distributions from your IRA will be taxed unless you can show, with satisfactory evidence, that nondeductible contributions were made.

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 2000, 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, which includes $2,000 interest and dividend income, is $58,555. Since their modified AGI is between $52,000 and $62,000 and Tom is covered by an employer plan, Tom is subject to the deduction phaseout discussed earlier under *Limit If Covered By Employer Plan.*

For 2000, 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 16, 2001. 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	$ 32,000	$ 42,000
Married–joint return or Qualifying widow(er)	$ 52,000	$ 62,000
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

*See *Filing Status,* earlier.

1. Enter the amount from above that applies	$ 62,000
2. Enter your ***modified AGI*** (that of both spouses, if married filing jointly)	58,555

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*.

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 and Roth IRA contributions 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 2000, 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 2000 is not subject to the deduction phaseout discussed earlier under *Limit If Covered By Employer Plan.* 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, because of capital gains from sales of stock, 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	$ 32,000	$ 42,000
Married–joint return or Qualifying widow(er)	$ 52,000	$ 62,000
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

*See *Filing Status,* earlier.

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*.

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 and Roth IRA contributions 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 2000, 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

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 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 distributes 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 the same or another traditional IRA. In the other, you put amounts you receive from an employer's qualified retirement plan for its employees 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 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 early distributions as discussed later under *Early Distributions.*

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*** during the 60-day period allowed for a rollover, special rules extend the rollover period.

The period during which the amount is a frozen deposit is not counted in the 60-day period. The 60-day period cannot end earlier than 10 days after the deposit is no longer frozen. To qualify under these rules, 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 from a financial institution 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 the same or another traditional IRA. Because this is a rollover, you cannot deduct the amount that you reinvest in an IRA.

TIP *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 a 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 an 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 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 a 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 early 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 traditional IRA the same property you received from your traditional IRA.

Partial rollovers. If you withdraw assets from a traditional IRA, you can roll over part of the withdrawal tax free into a 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 *Early Distributions.*

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 the inherited IRA 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 the same or another traditional IRA on lines 15a and 15b of Form 1040, or on lines 11a and 11b of Form 1040A. Enter the total amount of the distribution on line 15a of Form 1040, or on line 11a of Form 1040A. If the total amount on line 15a of Form 1040, or on line 11a of Form 1040A was rolled over, enter zero on line 15b of Form 1040, or on line 11b 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 11b 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 (explained later under *When Must I Withdraw IRA Assets? (Required Distributions)),*

2) Hardship distributions from 401(k) plans and certain 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 this 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 period 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. You can avoid withholding by choosing the direct rollover option, discussed later.

Exceptions. The payer does not have to withhold from an eligible rollover distribution paid to you 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. The 20% withholding requirement does not apply to distributions that are not eligible rollover distributions. 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. 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.

If any part is paid to you, the payer must withhold 20% of that part's taxable amount.

Choosing the right option. The following comparison chart may help you decide which distribution option to choose. Carefully compare the effects of each option.

Comparison Chart

Direct Rollover	Payment to You
No withholding.	Payer must withhold income tax of 20% on the taxable part.
No 10% additional tax. (See *Early 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.	Any taxable part (including an amount equal to the tax withheld) not rolled over is income.

TIP *If you decide to roll over 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 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). 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 you receive in an eligible rollover 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, 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, 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).

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 do not roll over any of it, special rules for lump-sum distributions may apply. See Publication 575. The 10% additional tax on early 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 (a qualified plan), you can roll over all or part of the distribution (including a lump-sum distribution) into a traditional IRA. 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.

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.

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 12a and 12b, Form 1040A. Do not use lines 15a or 15b, Form 1040, or lines 11a or 11b, 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 use of your IRA assets and distributions from it. 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 you must pay a 10% additional tax on the distribution of any assets (money or other property) from your traditional IRA. Distributions before you are age 59½ are called early distributions. The additional 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 *Contributions Returned Before the Due Date,* later, and *Early Distributions* under *What Acts Result in Penalties?*, later.

CAUTION *You may have to pay a 25%, rather than 10%, additional tax if you receive distributions from a SIMPLE IRA before you are age 59½. See* Additional Tax on Early Distributions *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 receive distributions from your traditional IRA without having to pay the 10% additional tax. Even though you can receive distributions after you reach age 59½, distributions are not required 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 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 10% additional tax on distributions that are not more than:

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

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 distributions 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 receive the distributions during either the year you received the unemployment compensation or the following year.
4) You receive the distributions no later than 60 days after you have been reemployed.

Disabled. If you become disabled before you reach age 59½, any distributions 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 *What If I Inherit an IRA?*, 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 distribution may not be subject to the 10% additional tax. 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 distribution 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 distributions you receive 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.

TIP *If both you and your spouse are first-time homebuyers (defined later), each of you can receive distributions 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, 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 2000, 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, for each contribution you withdraw, ***both*** the following apply.

- You did not take a deduction for the contribution.
- You also withdraw any interest or other income earned on the contribution. Beginning in 2000, you can take into account any loss on the contribution while it was in the IRA when calculating the amount that must be withdrawn. If there was a loss, the net income earned on the contribution may be a negative amount.

Note. If the trustee of your IRA is for any reason unable to calculate the amount you must withdraw, get IRS Notice 2000–39. The notice explains the IRS-approved method of calculating the amount you must withdraw.

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.

CAUTION *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.*

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

Excess contributions tax. If any part of these contributions is an excess contribution for 1999, it is subject to a 6% excise tax. You will not have to pay the 6% tax if any 1999 excess contribution was withdrawn by April 17, 2000 (plus extensions), and if any 2000 excess contribution is withdrawn by April 16, 2001 (plus extensions). See *Excess Contributions* under *What Acts Result in Penalties?,* later.

TIP *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 they ***must*** be distributed. If there are no distributions, or if the distributions are not large enough, you may have to pay a 50% excise tax on the amount not distributed as required. See *Excess Accumulations,* later. The requirements for distributing IRA funds differ, depending on whether you are the IRA owner or the beneficiary of a decedent's IRA.

Distributions not eligible for rollover. Amounts that must be distributed (required distributions) during a particular year ***are not eligible for rollover*** treatment.

IRA Owners

If you are the owner of a traditional IRA, you must:

1) Receive the entire balance in your IRA or

2) 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 receive the entire balance in your traditional IRA by the required beginning date, you must start to receive 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.

Distributions by the required beginning date. 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 $70\frac{1}{2}$ (your $70\frac{1}{2}$ year). If you do not (or did not) receive that minimum amount in your $70\frac{1}{2}$ year, then you must receive distributions for your $70\frac{1}{2}$ year by April 1 of the next year. See *Minimum Distributions,* later.

Distributions after the required beginning date. The required minimum distribution for any year after your $70\frac{1}{2}$ year must be made by December 31 of that later year.

Example. You reach age $70\frac{1}{2}$ on August 20, 2000. For 2000 (your $70\frac{1}{2}$ year), you must receive the required minimum distribution from your IRA by April 1, 2001. You must receive the required minimum distribution for 2001 (the first year after your $70\frac{1}{2}$ year) by December 31, 2001.

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 receive distributions. 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 receive distributions 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 receive distributions, 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 receive distributions for subsequent years using only your remaining life expectancy.

Beneficiaries

If you are the beneficiary of a decedent's traditional IRA, the requirements for distributions from that IRA depend on whether distributions that satisfy the minimum distributions requirement have begun. See *Distributions begun before owner's death* and *Owner dies before distributions have begun,* later.

Determining when distributions have begun. For purposes of determining the requirements for distributions 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 *What If I Inherit an IRA?,* 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 surviving spouse must begin. In this case, distributions may be made to the spouse's beneficiary as if the spouse were the IRA owner.

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,* next.

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*** and the applicable life expectancy and use the lower number. (See *Table for Determining Applicable Divisor for MDIB* in *Appendix E*.)

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. For this purpose, a rollover contribution received in the year after it was distributed from the other IRA is deemed received in the year it was distributed.
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, 1929, reached 70½ in 2000. His wife (his beneficiary) turned 56 in September 2000. He must begin receiving distributions by April 1, 2001. Joe's IRA account balance as of December 31, 1999, is $29,000. Based on their ages at year end (December 31, 2000), 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 2000, 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, 2001.

Joe's IRA account balance as of December 31, 2000, is $29,725.

To figure the minimum amount that must be distributed for 2001, the IRA account balance (as of December 31, 2000) of $29,725 is reduced by the $1,000 minimum required distribution for 2000 that was made on April 1, 2001. The account balance for determining the required distribution for 2001 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)*.

CAUTION *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 (discussed at *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. For years following the year for which you first determine life expectancy, you must use one of the following two methods of determining life expectancy.

1) **Term certain method.** Under this method you reduce the life expectancy determined for the first year by one for each year that has passed since that first year. If your designated beneficiary dies, you continue to use the joint life expectancy (reduced by one each year) that you were using before your designated beneficiary died.

2) **Refiguring life expectancy each year.** Under this method, you refigure your (or your spouse's) life expectancy each year as explained next.

Election to refigure life expectancy. Your traditional IRA terms may permit you and your spouse to elect whether to use the term certain method or 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. If your IRA permits the election, your IRA trustee should be able to help you make the election. There is no IRS form required for this election.

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, except that neither *Table II* nor the MDIB requirement (discussed next) applies after your death. (See *Example 3,* later.) Using *Example 3,* steps 1 through 4, and assuming Joe died in 1999, 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*** (explained at *Figuring the Minimum Distribution,* earlier) for the year, and determine which number is smaller.

3) Divide the ***IRA account balance*** (defined under *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* (in *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 2000 is $1,146 ($29,000 divided by 25.3) instead of the $1,000 computed in *Example 1*. Joe's adjusted December 31, 2000, account balance to be used for determining the required distribution for 2001 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 2001. Joe's minimum distribution for 2001 is figured by dividing his adjusted account balance as of December 31, 2000 ($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 2000	27.7
2) Number of years that have passed since 2000. (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 2001	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 2001, 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, 1929, became 70½ on February 1, 2000. She has two traditional IRAs. She must begin receiving her IRA distributions by April 1, 2001. On December 31, 1999, 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 2000, is the beneficiary of IRA A. Her husband, age 78 as of his birthday in 2000, 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, 2001, 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.

Example 1. Justin became 70½ on December 15, 2000. Justin's IRA account balance on December 31, 1999, was $38,400. He figured his required minimum distribution for 2000 was $2,400 ($38,400 divided by 16). By December 31, 2000, he had actually received distributions totaling $3,600, $1,200 more than was required. Justin cannot use that $1,200 to reduce the amount he is required to distribute for 2001, but his IRA account balance must be reduced by the full $3,600 to figure his required minimum distribution for 2001. Justin's reduced IRA account balance on December 31, 2000, was $34,800. The terms of Justin's IRA permit him to use the term certain method to figure his required distributions. He figured his required minimum distribution for 2001 is $2,320 ($34,800 divided by 15). During 2001, he must receive distributions of at least that amount.

Example 2. Assume the same facts as in Example 1, except that Justin received the distribution of $3,600 on March 15, 2001. Because the distribution was received before April 1, 2001, he can count $2,400 of that distribution as his required distribution for his 70½ year (2000). He can count the remainder ($1,200) as part of his required distribution for 2001. To figure his required distribution for 2001, Justin must reduce his IRA account balance by $2,400, rather than $3,600, to figure his required minimum distribution for 2001. Therefore, his reduced IRA account balance as of December 31, 2000, was $36,000. His required minimum distribution for 2001 is $2,400, rather than the $2,320 figured in Example 1. Because Justin has already received a distribution of $1,200 for 2001, only $1,200 more is needed to satisfy his minimum distribution requirement for 2001.

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, distributions from a traditional IRA are taxable 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.*

CAUTION *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 10-year tax option 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), 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 2000, and your total IRA basis for 2000 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 2000, you must use Form 8606 to figure how much of your 2000 IRA distribution is tax free.

Contribution and distribution in the same year. If you received a distribution in 2000 from a traditional IRA and you also made contributions to a traditional IRA for 2000 that may not be fully deductible because of the income limits, you can use the following worksheet to figure how much of your 2000 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, 2000, had not yet been reinvested into another traditional IRA.

Worksheet To Figure Taxable Part of Distribution

Use only if you made contributions to a traditional IRA for 2000 and have to figure the taxable part of your 2000 distributions to determine your modified AGI. See *Limit If Covered By Employer Plan,* earlier.

1) Enter the basis in your traditional IRA(s) as of 12/31/99 .... $_____
2) Enter the total of all contributions made to your traditional IRAs during 2000 and all contributions made during 2001 that were for 2000, **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 12/31/00 (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 2000. (Do not include outstanding rollovers included on line 4 or any rollovers between traditional IRAs completed by 12/31/00. 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 12/31/00. (See ***Note*** 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 .... $_____

Note. If the amount on line 5 of this worksheet includes an amount converted to a Roth IRA by 12/31/00, 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 16 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.

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

2000

Attachment Sequence No. **48**

Name. If married, file a separate form for each spouse required to file Form 8606. See page 5 of the instructions.
Rose Green

Your social security number
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 and SIMPLE IRAs (Nondeductible Contributions, Distributions, and Basis)

Complete Part I if:

- You made nondeductible contributions to a traditional IRA for 2000,
- You received distributions from a traditional or SIMPLE IRA in 2000 **and** you made nondeductible contributions to a traditional IRA in 2000 or an earlier year, **or**
- You converted part, but not all, of your traditional or SIMPLE IRAs to Roth IRAs in 2000 **and** you made nondeductible contributions to a traditional IRA in 2000 or an earlier year. See the instructions for lines 8, 11, and 15 for special computations.

1	Enter your nondeductible contributions to traditional IRAs for 2000, including those made for 2000 from January 1, 2001, through April 16, 2001. See page 5 of the instructions	1	500
2	Enter your total basis in traditional IRAs for 1999 and earlier years. See page 5 of the instructions	2	300
3	Add lines 1 and 2	3	800

Did you receive any distributions from traditional or SIMPLE IRAs or make a Roth IRA conversion in 2000?
- **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, 2001, through April 16, 2001. See page 5 of the instructions	4	0
5	Subtract line 4 from line 3	5	800
6	Enter the value of **all** your traditional and SIMPLE IRAs as of December 31, 2000, plus any outstanding rollovers. See page 5 of the instructions	6	
7	Enter your total distributions from traditional and SIMPLE IRAs in 2000. **Do not** include rollovers or Roth IRA conversions. See page 5 of the instructions	7	
8	Add lines 6 and 7. (But if you converted any amount from traditional or SIMPLE IRAs to Roth IRAs in 2000, see page 5 of the instructions 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 2000	10	460 *
11	Subtract line 10 from line 5. (But if you converted any amount from traditional or SIMPLE IRAs to Roth IRAs in 2000, see page 6 of the instructions for the amount to enter.) This is your basis in traditional IRAs as of December 31, 2000	11	340
12	Add lines 4 and 11. This is your **total basis in traditional IRAs for 2000 and earlier years**	12	340
13	**Taxable distributions from traditional and SIMPLE IRAs.** Subtract line 10 from line 7. Also include this amount on Form 1040, line 15b; Form 1040A, line 11b; or Form 1040NR, line 16b	13	0 *

Part II 2000 Conversions From Traditional or SIMPLE 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 2000, you* ***cannot*** *convert any amount from traditional or SIMPLE IRAs to Roth IRAs for 2000. If you erroneously made a conversion, you must recharacterize (correct) the conversion. See page 6 of the instructions for details.*

14a	Enter the total amount you converted from traditional and SIMPLE IRAs to Roth IRAs in 2000	14a	5,000
b	Enter the portion of the amount on line 14a that you **recharacterized** back to a traditional or SIMPLE IRA. **Do not** include earnings or reduce the amount by any loss that occurred. See page 3 of the instructions	14b	
c	Subtract line 14b from line 14a. This is the net amount you converted to Roth IRAs in 2000	14c	5,000
15	Enter your basis in the amount on line 14c from traditional IRAs. See page 6 of the instructions	15	
16	**Taxable amount of conversions.** Subtract line 15 from line 14c. Also include this amount on Form 1040, line 15b; Form 1040A, line 11b; or Form 1040NR, line 16b	16	4,540 *

For Paperwork Reduction Act Notice, see page 8. Cat. No. 63966F Form **8606** (2000)

* From Worksheet in Publication 590

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

Year	Deductible	Nondeductible
1993	$2,000	–0–
1994	2,000	–0–
1995	2,000	–0–
1996	1,000	–0–
1997	1,000	–0–
1998	1,000	–0–
1999	700	$ 300
Totals	$9,700	$ 300

In 2000, Rose, whose IRA deduction for that year may be reduced or eliminated, makes a $2,000 contribution that may be partly nondeductible. She also receives a distribution of $5,000 for conversion to a Roth IRA. She completed the conversion before 12/31/00 and did not recharacterize any contributions. At the end of 2000, the fair market values of her accounts, including earnings, total $20,000. She did not receive any tax-free distributions in earlier years. The amount she includes in income for 2000 is figured as follows:

Worksheet To Figure Taxable Part of Distribution

Use only if you made contributions to a traditional IRA for 2000 and have to figure the taxable part of your 2000 distributions to determine your modified AGI. See *How Much Can I Deduct?,* earlier.

1) Enter the basis in your traditional IRA(s) as of 12/31/99	$ 300
2) Enter the total of all contributions made to your traditional IRAs during 2000 and all contributions made during 2001 that were for 2000, **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 12/31/00 (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 2000. (Do not include outstanding rollovers included on line 4 or any rollovers between traditional IRAs completed by 12/31/00. 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 12/31/00. (See ***Note*** 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–

Note. If the amount on line 5 of this worksheet includes an amount converted to a Roth IRA by 12/31/00, 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 1999 of $2,000. By the end of 2000, his IRA earns $400 in interest income. In that year, Bill receives a distribution of $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 2001, 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 receives the $1,300 balance remaining in the IRA. He can claim a loss for 2001 of $200 (the $1,500 basis minus the $1,300 distribution of the 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 *What If I Inherit an IRA?,* earlier. Also see the discussion earlier under *When Must I Withdraw IRA Assets? (Required Distributions)* for the rules on when you must begin to receive distributions 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 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 distribution, no known exception.

2—Early 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 2000.

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 1998.

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 1999.

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

Form 1040

Income				
Attach 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 22)	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	
	14	Other gains or (losses). Attach Form 4797	14	
If you did not get a W-2, see page 21.	15a	Total IRA distributions 15a — **b** Taxable amount (see page 23)	15b	
	16a	Total pensions and annuities 16a — **b** Taxable amount (see page 23)	16b	
	17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	
Enclose, but do not attach, 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 25)	20b	
	21	Other income. List type and amount (see page 25)	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 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	
	10	Capital gain distributions (see page 26).	10	
If you did not get a W-2, see page 26.	11a	Total IRA distributions. 11a — **11b** Taxable amount (see page 26).	11b	
Enclose, but do not attach, any payment.	12a	Total pensions and annuities. 12a — **12b** Taxable amount (see page 27).	12b	
	13	Unemployment compensation, qualified state tuition program earnings, and Alaska Permanent Fund dividends.	13	
	14a	Social security benefits. 14a — **14b** Taxable amount (see page 29).	14b	
	15	Add lines 7 through 14b (far right column). This is your **total income.** ▶	15	

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, *Tax Withholding and Estimated Tax*. See also Publication 515, *Withholding of Tax on Nonresident Aliens and Foreign Corporations.*

Reporting taxable distributions on your return. Report fully taxable distributions, including early distributions, on line 15b, Form 1040 (no entry is required on line 15a), or line 11b, Form 1040A. If only part of the distribution is taxable, enter the total amount on line 15a, Form 1040 (or line 11a, Form 1040A), and the taxable part on line 15b (or 11b). 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.
- Taking early distributions.
- Allowing excess amounts to accumulate (failing to take required distributions).

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.

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 early 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 early 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 early 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 has 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 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 exemption 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 early 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 for the year that is more than the smaller of:

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 2000, 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 2000 and $6 interest in 2001 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 2000 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 54, 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. Beginning in 2000, you can take into account any loss on the contribution while it was in the IRA when calculating the amount that must be withdrawn. If there was a loss, the net income you must withdraw may be a negative amount.

Note. If the trustee of your IRA is for any reason unable to calculate the amount you must withdraw, get IRS Notice 2000–39. The notice explains the IRS-approved method of calculating the amount you must withdraw.

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 distributions, 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 distributions (withdrawals) from your traditional IRA in your gross income. However, if the following three conditions are met, you can withdraw excess contributions from your IRA and not include the amount withdrawn in your gross income.

1) Total contributions (other than rollover contributions) for the year to your IRA were not more than $2,000.
2) There were no employer contributions for the year.
3) You did not take a deduction for the excess contribution being withdrawn.

The withdrawal can take place at any time, even after the due date, including extensions, for filing your tax return for the year.

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 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 1999 and $1,500 in 2000 (the amounts of her taxable compensation for these years). For 1999, she actually contributed $1,400 but could deduct only $1,000. In 1999, $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 1999 return. Since Terry did not withdraw the excess, she owes excise tax of $24 for 1999. To avoid the excise tax for 2000, she can correct the $400 excess amount from 1999 in 2000 if her actual contributions are only $1,100 for 2000 (the allowable deductible contribution of $1,500 minus the $400 excess from 1999 she wants to treat as a deductible contribution in 2000). Terry can deduct $1,500 in 2000 (the $1,100 actually contributed plus the $400 excess contribution from 1999).

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.

Early Distributions

You must include early distributions of taxable amounts from your traditional IRA in your gross income. Early distributions are also subject to an additional 10% tax, as discussed later.

Early distributions defined. Early distributions are amounts distributed 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 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 are also tax free and not subject to the 10% additional tax. (See *Excess Contributions,* earlier.) This also applies to transfers incident to divorce, as discussed under *Can I Move Retirement Plan Assets?*, earlier.

Receivership distributions. Early 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 early distributions is 10% of the amount of the early 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, receives a $3,000 distribution from his traditional IRA account. Tom does not meet any of the exceptions to the age 59½ rule, so the $3,000 is an early 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 distribution 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 distributions 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 distributions tax.

Nondeductible contributions. The tax on early 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? (Required Distributions)*, 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 distribution.

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, early (premature) 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 54, 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 "2000 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 54 of Form 1040. Write "No" next to line 54 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 additional tax on early distributions. 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.

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 2000 by the due date (not including extensions) for filing your 2000 tax return. This means that most people can make contributions for 2000 by April 16, 2001.*

Contributions not reported. You do not have to report Roth IRA contributions on your return.

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 *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.

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, qualifying widow(er), or married filing separately—and you did not live with your spouse at any time during the year	$110,000

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.

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.

CAUTION *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.

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, qualifying widow(er), or married filing separately—and you did not live with your spouse at any time during the year	$95,000 and $110,000

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.

TIP *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 2000. Your modified AGI for 2000 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.

Table 2.3 **Maximum Roth IRA Contribution Worksheet** (keep for your records)

CAUTION *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* How Much Can Be Contributed?

1	If married filing jointly, enter $2,000. All others, enter the **smaller** of $2,000 or your taxable compensation (defined in Chapter 1)	**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** 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 (e.g., 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** if you contributed more than this amount to Roth IRAs for 2000	**10** ______

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 *Lived apart from spouse* 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 distributions*** 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 distributions. See chapter 1 for more information on distributions from traditional IRAs and the tax on early distributions.

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 distribution 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 distributions 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 distribution from a traditional IRA that is a return of your basis, as discussed under *Are Distributions Taxable?*, earlier.

If you must include any amount in your gross income, you may have to make estimated tax payments. See Publication 505, *Tax Withholding and Estimated Tax.*

How To Treat 1998 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 distribution is generally included ratably over a 4-year period, beginning with 1998. This means you included one quarter of the amount in 1998, and one quarter in 1999, and must include one quarter in 2000, and one quarter in 2001. However, see *Distributions 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).

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

For 2000, you generally must include in income the total of the following two amounts.

1) One quarter of the taxable part of the 1998 distribution from the traditional IRA that was converted to the Roth IRA.

2) The part of the 2000 distribution from the Roth IRA that, under the ordering rules for distributions (discussed later), is allocable to the taxable part of the 1998 conversion from the traditional IRA to the Roth IRA.

Any amount allocable to the 1998 conversion that is included in income in 2000 because of a distribution from the Roth IRA reduces the taxable amount that is reportable in 2001. The most that must be included in income for 2000 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.

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 distributions 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 distribution (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.

If you timely file your return without making the election, you can still make the choice by filing an amended return within six months of the due date of the return (excluding extensions). Report the recharacterization on the amended return and write “Filed pursuant to section 301.9100–2” on the return. File the amended return at the same address you filed the original return.

Net income must be transferred. The contribution will not be treated as having been made to the second IRA unless the transfer includes any net income allocable to the contribution. You can take into account any loss on the contribution while it was in the IRA when calculating the amount that must be transferred. If there was a loss, the net income you must transfer may be a negative amount.

No deduction allowed. No deduction is allowed for the contribution to the first IRA and any net income transferred with the recharacterized contribution is 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.

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.

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

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 either of these periods, it will be a failed conversion.

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. If there was a loss while the contribution was in the first IRA, the net income that must be transferred may be a negative amount. Beginning in 2000, there is a new method available for calculating net income allocable to recharacterized contributions.
- 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.

Note. If the trustee of your first IRA is for any reason unable to calculate the amount of net income you must transfer, get IRS Notice 2000–39. The notice explains the IRS-approved method of calculating the amount you must 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.

If you have timely filed your tax return, you have an automatic 6-month extension to recharacterize a contribution or a conversion.

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, 2000, 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 2000. In December, Jeremy received an unexpected bonus that increased his and Christine's modified AGI to more than $100,000. In January, 2001, to make the necessary adjustment to remove the unallowable conversion, Christine set up a traditional IRA with the same trustee. Also in January 2001, 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 net income allocable to it 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 2000, 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 Distributions,* later.

What Are Qualified Distributions?

A qualified distribution is 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 Early Distributions

If you receive a distribution that is not a qualified distribution, you may have to pay the 10% additional tax on early distributions as explained in the following paragraphs.

Distributions of conversion contributions within 5-year period. If, within the 5-year period starting with the year in which you made a conversion contribution of an amount from a traditional IRA to a Roth IRA, you take a distribution from a Roth IRA of an amount attributable to the portion of the conversion contribution that you had to include in income, you generally must pay the 10% additional tax on early distributions. (See *Ordering Rules for Distributions,* later, to determine the amount, if any, of the distribution that is attributable to the conversion contribution.) The 5-year period is separately determined for each conversion contribution.

Unless one of the exceptions listed later applies, you must pay the additional tax on the portion of the distribution attributable to the 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 distribution, 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 distribution attributable to earnings on contributions. See *Example 2,* later.

Other early distributions. Unless one of the exceptions listed below applies, you must pay the 10% additional tax on early 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 early 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.

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 Distributions

If you receive a distribution from your Roth IRA that is ***not*** a qualified distribution, part of it may be taxable. For purposes of determining the correct tax treatment of distributions (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 distributed from your Roth IRA. The order of distributions 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 distributed (withdrawn), distributions and contributions are grouped and added together as follows.

1) All distributions 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 distribution is made in 2000 and the conversion contribution is made in 2001, the conversion contribution is treated as contributed prior to other conversion contributions made in 2001.

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 distribution that is ***not*** a qualified distribution, complete the following worksheet.

Worksheet
To Figure the Taxable Part of a Distribution (That is Not a Qualified 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 *Distributions from Roth IRAs* earlier under *How To Treat 1998 Conversions*, 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. (Do not include earnings.)	
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. (Include earnings.)	
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.

On February 23, 1999, Justin makes a regular contribution of $2,000 to a Roth IRA. On November 7, 1999, Justin takes a $5,000 distribution from his Roth IRA.

The first $2,000 of the distribution is a return of Justin's regular contribution and is not includible in his income.

The next $3,000 of the distribution is includible in income because of the special early inclusion rule for conversion contributions that are distributed 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 distributions that applies to distributions of conversion contributions.

Justin must file Form 5329 with his return to report the early distribution 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 take any distributions in 1999 through 2001.

On February 14, 2002, Justin takes an $85,000 distribution from his IRA.

The first $8,000 of the distribution is a return of his regular contributions (the total of his regular contributions in each year 1999 through 2002). 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 2002.

The remaining $17,000 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 distribution 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 2002. Instead, the entire $170,000 balance in Justin's Roth IRA is distributed to him 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.

The first $10,000 of the distribution is treated as a return of his regular contributions ($2,000 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.

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 distributions 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? (Required Distributions)* 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 distributions 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 and 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 distribution 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 Roth 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 Distributions,* 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% additional tax on early 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 IRA(s)

You may be able to establish an education individual retirement account (education IRA or Ed IRA) to finance a child's qualified higher education expenses.

You may be able to contribute up to $500 cash each year to an education IRA for a child under age 18. Contributions to an education IRA are not deductible, but amounts deposited in the account grow tax free until withdrawn.

Any individual (including the child) can contribute to a child's education IRA if his or her income is below a certain amount. There is no limit on the number of education IRAs that can be established designating a child as the beneficiary. However, total contributions for the child during any year cannot be more than $500. See *Contributions*, later.

If, for a year, withdrawals from an account are not more than a child's qualified higher education expenses at an eligible educational institution, the child will not owe tax on the withdrawals. See *Withdrawals,* later.

What Is an Education IRA?

An education IRA is a trust or custodial account created or organized in the United States only for the purpose of paying the qualified higher education expenses (defined later) of the designated beneficiary of the account. When the account is established, the designated beneficiary must be a child under age 18. To be treated as an education IRA, the account must be designated as an education IRA when it is created.

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 less than $110,000 ($160,000 in the case of a joint return).

Creating Document 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 if it:

a) Is in cash,

b) Is made before the beneficiary reaches age 18, and

c) Will not result in total contributions for the 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) The balance in the account generally must be withdrawn within 30 days after the earlier of the following events.

a) The beneficiary reaches age 30.

b) The beneficiary's death.

See *When Assets Must Be Withdrawn*, later.

Designated Beneficiary

The individual named in the document creating the trust or custodial account to receive the benefit of the funds in the account is the designated beneficiary.

Qualified Higher Education Expenses

These are expenses required for the enrollment or attendance of the designated beneficiary at an eligible educational institution. They include only the following items.

1) Tuition and fees.

2) The cost of books, supplies, and equipment.

3) Amounts contributed to a qualified state tuition program. (See *State Tuition Programs,* in Publication 970.)

4) In some situations, the cost of room and board.

The cost of room and board is a qualified higher education expense if the designated beneficiary is at least a half-time student at an eligible educational institution.

The expense for room and board is limited to one of the following two amounts.

1) The school's posted room and board charge for students living on campus.

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

Half-time student. A student is enrolled “at least half-time” if he or she is enrolled for at least half the full-time academic work load for the course of study the student is pursuing as determined under the standards of the school where the student is enrolled.

Eligible educational institution. An eligible educational institution is any college, university, vocational school, or other postsecondary educational institution eligible to participate in a student aid program 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.

Contributions

Any individual (including the child for whose benefit the account is established) can contribute to an education IRA if the individual's ***modified adjusted gross income*** (defined below) for the year is less than $110,000 ($160,000 in the case of a joint return). Contributions must be in cash, and cannot be made after the beneficiary reaches age 18.

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

Modified adjusted gross income. For most taxpayers, modified adjusted gross income will be their adjusted gross income (AGI) as figured on their federal income tax return. On Form 1040, AGI is line 34. On Form 1040A, AGI is line 19. However, you must make adjustments to your AGI if you excluded income earned abroad or from certain U.S. territories or possessions. If this applies to you, increase your AGI by the following amounts you excluded 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 Puerto Rico, Guam, American Samoa, or the northern Mariana Islands.

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 year.

Contribution Limits

There are two yearly limits, one on the total amount that can be contributed for each designated beneficiary (child) in any year 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 in a year. This includes contributions (other than rollovers) to all the child's education IRAs from all sources. Rollovers are discussed under *Rollovers and Other Transfers*, later.

Limit for each contributor. You can contribute up to $500 for each child for any 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. However, this limit may be reduced as explained next.

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

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?	Earnings on the account grow tax free until withdrawn.
What is the **contribution limit** per child?	$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.

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 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 amount you can contribute for each child.

Example. Paul, who is single, had modified adjusted gross income of $96,500 for the year. Paul, can contribute up to $450 for each child, figured as follows.

1) $96,500 – $95,000 = $1,500

2) $1,500 ÷ $15,000 = 10%

3) 10% × $500 = $50

4) $500 – $50 = $450

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 IRA 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.

3) Excess contributions for the preceding year, reduced by the total of the following two amounts:

   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 (including extensions). If the beneficiary does not have to file a return, the tax does not apply if the excess contributions (and the earnings) 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.

Rollovers and Other Transfers

Assets can be rolled over from one education IRA to another. The designated beneficiary can be changed and the beneficiary's interest can be transferred to a spouse or former spouse because of divorce.

Rollovers

Any amount withdrawn from an education IRA and rolled over to another education IRA for the benefit of the same beneficiary or a member of the beneficiary's family who is under age 30 is not taxable. An amount is rolled over if it is paid to another education IRA within 60 days after the date of the withdrawal.

Education IRA Withdrawals 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
Is a withdrawal from an education IRA to pay for a designated beneficiary's qualified higher education expenses tax free?	Generally, yes, to the extent the amount of the withdrawal is not more than the designated beneficiary's qualified higher education expenses.
After the designated beneficiary completes his or her education at an **eligible educational institution,** may amounts remaining in the education IRA be withdrawn?	Yes. Amounts ***must*** be withdrawn when the designated beneficiary reaches age 30. Also, certain transfers to **members of the designated beneficiary's family** are permitted.
Does the designated beneficiary need to be enrolled for a minimum number of courses to take a tax-free withdrawal?	No.

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

- The beneficiary's child, grandchild, or stepchild.
- A brother, sister, half brother, half sister, stepbrother, or stepsister of the beneficiary.
- The father, mother, grandfather, grandmother, stepfather, or stepmother of the beneficiary.
- A brother or sister of the beneficiary's father or mother.
- A son or daughter of the beneficiary's brother or sister.
- The beneficiary's son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law.

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

Changing the Designated Beneficiary

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

Transfer Because of Divorce

If a spouse or former spouse receives an education IRA under a divorce or separation instrument, it is not a taxable transfer. After the transfer, the spouse or former spouse treats the education IRA as his or her own.

Withdrawals

The designated beneficiary of an education IRA can take withdrawals at any time. Whether the withdrawals are tax free depends, in part, on whether the withdrawals are more than the amount of qualified higher education expenses (defined earlier) that the beneficiary has in the tax year.

Withdrawals Not More Than Expenses

Generally, withdrawals are tax free if they are not more than the beneficiary's qualified higher education expenses for the tax year.

Withdrawals More Than Expenses

Generally, a portion of the withdrawals is taxable to the beneficiary if the withdrawals are more than the beneficiary's qualified higher education expenses for the tax year.

The taxable portion is the amount of the withdrawal that represents 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 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. 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 is the qualified higher education expenses paid during the year and the denominator 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 withdrawal 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 × ($1,000 ÷ $1,200) = $500
2) $600 – $500 = $100
3) $100 × ($450 ÷ $600) = $75
4) $100 – $75 = $25

You must include $25 in income as withdrawn earnings not used for the expenses of higher education.

Withdrawal and Deduction or Credit

You generally cannot take a deduction or credit for any educational expenses that you use as the basis for a tax-free withdrawal from an education IRA. But see *Waiver of tax-free treatment*, next.

Waiver of tax-free treatment. The designated beneficiary can waive the tax-free treatment of the withdrawal and elect to pay any tax that would otherwise be owed on the withdrawal. The beneficiary or the beneficiary's parents may then be eligible to claim a Hope credit or lifetime learning credit for qualified higher education expenses paid in that tax year.

Additional Tax

Generally, if the beneficiary receives a taxable withdrawal, he or she also must pay a 10% additional tax on the amount included in income.

Exceptions. The 10% additional tax does not apply to withdrawals described in the following list.

1) Paid to a beneficiary (or to the estate of the designated beneficiary) on or after the death of the designated beneficiary.
2) Made because the designated beneficiary is disabled. A person is considered to be disabled if he or she shows proof that he or she cannot do any substantial gainful activity because of his or her physical or mental condition. A physician must determine that his or her condition can be expected to result in death or to be of long-continued and indefinite duration.
3) Made because the designated beneficiary received:
   a) A qualified scholarship excludable from gross income,
   b) An educational assistance allowance, or
   c) 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 withdrawal is not more than the scholarship, allowance, or payment.
4) Included in income only because the beneficiary waived the tax-free treatment of the withdrawal (as explained earlier).
5) A return of an excess contribution (and any earnings on it) made before the due date of the beneficiary's tax return (including extensions). If the beneficiary does not have to file a return, the excess (and any earnings) must be withdrawn by April 15 of the year following the year of the contribution. The beneficiary must include in gross income for the year the contribution is made any income earned on the excess contribution.

When Assets Must Be Withdrawn

Any assets remaining in an education IRA must be withdrawn 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 withdrawn within 30 days after the date of death.

The earnings that accumulated tax free in the account must be included in taxable income. You determine these earnings as shown in 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 person receiving the assets must include this amount in income.

Exception for transfer to surviving spouse or family member. If an education IRA is transferred to a surviving spouse or other family member as the result of the death of the designated beneficiary, the education IRA retains its status. (For this purpose, family member was defined earlier under *Rollovers.)* This means the spouse or other family member can treat the education IRA as his or her own. There are no tax consequences as a result of the transfer.

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. You are a qualifying employee if you meet ***all*** of the following conditions.

1) You are at least 21 years old.
2) You have worked for your employer during at least 3 of the 5 years immediately preceding the current year.
3) You have received from your employer at least $450 in compensation in the current 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. You can be excluded from coverage under a SEP if you are in the following groups of employees.

1) Employees covered by a union agreement if their retirement benefits were bargained for in good faith by their union and their employer.
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 each year to each participating employee's SEP-IRA up to 15% of the employee's compensation or $30,000, ***whichever is less***. Because only the first $170,000 of compensation is usually considered, the limit is actually the lesser of 15% of compensation or $25,500. 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 $170,000, 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 2000, before his employer's contribution to his SEP-IRA, was $180,000. Because the 15% limit is less than the $30,000 limit, Barry's employer can contribute up to $25,500 (15% × $170,000) 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 $170,000 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 $170,000 by your plan contribution rate. Enter the result but not more than $30,000	$ 17,850
Step 7 Enter the smaller of Step 5 or Step 6. This is your ***maximum deductible contribution.***	$ 17,850

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 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 *Early Distributions*) on the early distribution 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 early 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 distribution 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.***

CAUTION *Only SEPs that allowed employees to choose elective deferrals as of December 31, 1996, can include salary reduction arrangements.*

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 2000, is limited to $10,500. This limit applies only to the amounts that represent a reduction from your salary, not to any contributions from employer funds.

Generally, elective deferrals are excluded from your income in the year of deferral, but are included in wages for social security, Medicare, and unemployment (FUTA) tax purposes.

Excess deferrals. Excess deferrals not withdrawn by April 15 are considered regular IRA contributions and are subject to the IRA contribution limits.

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 $170,000 for 2000) or $30,000, whichever is less. In effect, the overall limit for 2000 is $25,500 (15% x $170,000).

When Can I Withdraw or Use Assets?

An employer cannot prohibit distributions 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 distributions 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.

TIP *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 agreement) 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 SIMPLE 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.

Compensation. For purposes of the SIMPLE plan rules, your compensation for a year generally includes the following amounts.

- Wages, tips, and other pay from your employer that is subject to income tax withholding.
- 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 SIMPLE 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 under *Salary reduction contributions*, 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 2000, salary reduction contributions (employee-chosen contributions) that your employer can make on your behalf under a SIMPLE plan are limited to $6,000.

CAUTION

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 $10,500 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 2000, 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 his 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 2000 limit for salary reduction contributions ($6,000). Because 3% of Joshua's compensation ($7,200) is more than the amount his employer was required to match ($6,000), his 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 2000.

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, 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 2000, only $170,000 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 his employer's nonelective contributions are limited to 2% of up to $170,000 of Joshua's compensation, his employer's contribution to Joshua's SIMPLE IRA was limited to $3,400 for 2000. In this example, total contributions made on Joshua's behalf for the year were $9,400 (Joshua's salary reductions of $6,000 plus his employer's contribution of $3,400).

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 taking distributions from a SIMPLE IRA.

Are Distributions Taxable?

Generally, distributions from a SIMPLE IRA are fully taxable as ordinary income. If the distribution is an early distribution (discussed in chapter 1), it may be subject to the additional tax on early distributions. See *Additional Tax on Early Distributions,* later.

Rollovers and Transfers Exception

Generally, rollovers and trustee-to-trustee transfers are not taxable distributions.

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 Early Distributions

The additional tax on early distributions (discussed in chapter 1) applies to SIMPLE IRAs. If a distribution is an early 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 early 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 an early distribution, the additional tax imposed because of the early distribution is increased from 10% to 25% of the amount distributed.

6.

How To Get Tax Help

You can get help with unresolved tax issues, 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.

Contacting your Taxpayer Advocate. If you have attempted to deal with an IRS problem unsuccessfully, you should contact your Taxpayer Advocate.

The Taxpayer Advocate represents your interests and concerns within the IRS by protecting your rights and resolving problems that have not been fixed through normal channels. While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that your case is given a complete and impartial review.

To contact your Taxpayer Advocate:

- Call the Taxpayer Advocate at **1–877–777–4778.**
- Call the IRS at **1–800–829–1040.**
- Call, write, or fax the Taxpayer Advocate office in your area.
- Call **1–800–829–4059** if you are a TTY/TDD user.

For more information, see Publication 1546, *The Taxpayer Advocate Service of the IRS.*

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, *The 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 2000* 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 2000 (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 2000	Check, if rollover contribution	Fair Market Value of IRA as of December 31, 2000, 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 12/31/00 (from Form 8606, line 11) $ ____________

Basis of all traditional IRAs for 2000 (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)	$ 52,000*	$ 62,000
Married-joint return (You are not covered by an employer plan but your spouse is)	$150,000*	$160,000
Single, or Head of household	$ 32,000*	$ 42,000
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 2000, 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*. . . . . ____________

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	______

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 2000 wages of $53,500. His wife did not work in 2000. 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 2000 IRA deduction is $510. He must either withdraw the contributions that are more than the deduction (the $1,490 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

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)	$ 52,000*	$ 62,000
Married-joint return (You are not covered by an employer plan but your spouse is)	$150,000*	$160,000
Single, or Head of household	$ 32,000*	$ 42,000
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	$62,000
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	2,550
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	510
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 2000, 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.)	510
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*	1,490

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	510
3)	Subtract line 2 from line 1	52,990
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	56,490
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	24,490
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-	12,490

APPENDIX B. *(Continued)*

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-	10,617
17)	Add lines 15 and 16	14,117
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
2000
Attachment Sequence No. **29**

Name of individual subject to additional tax. (If married filing jointly, see page 2 of the instructions.)
Paul Jones

Your social security number
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 **only** owe the 10% tax on early distributions, you may be able to report this tax directly on Form 1040 without filing Form 5329. See **Who Must File** on page 1 of the instructions.

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 you received a Form 1099-R that incorrectly indicates an early distribution (with no known exception to the additional tax) or you received a Roth IRA distribution, you also may have to complete this part. See page 2 of the instructions.

Note: *You must include the 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 2 of the instructions	1	
2	Early distributions not subject to additional tax. Enter the appropriate exception number from page 2 of 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 54	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 3 of the instructions.*		

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 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 3 of the instructions	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 54	8	

Part III **Tax on Excess Contributions to Traditional IRAs**

Complete this part if you contributed more to your traditional IRAs for 2000 than is allowable or you had an excess contribution on line 16 of your 1999 Form 5329.

9	Enter your excess contributions from line 16 of your 1999 Form 5329. If zero, go to line 15			9	500
10	If your traditional IRA contributions for 2000 are less than your maximum allowable contribution, see page 3. Otherwise, enter -0-	10			
11	Taxable 2000 distributions from your traditional IRAs	11			
12	2000 withdrawals of prior year excess contributions included on line 9. See page 3	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 2000. See page 3. 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, 2000 (including contributions for 2000 made in 2001). Also include this amount on Form 1040, line 54			17	30

For Paperwork Reduction Act Notice, see page 4 of separate instructions. Cat. No. 13329Q Form **5329** (2000)

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

2000

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 **only** owe the 10% tax on early distributions, you may be able to report this tax directly on Form 1040 without filing Form 5329. See **Who Must File** on page 1 of the instructions.

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 you received a Form 1099-R that incorrectly indicates an early distribution (with no known exception to the additional tax) or you received a Roth IRA distribution, you also may have to complete this part. See page 2 of the instructions.

Note: *You must include the 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 2 of the instructions	1	3,000
2	Early distributions not subject to additional tax. Enter the appropriate exception number from page 2 of 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 54	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 3 of the instructions.*		

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 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 3 of the instructions	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 54	8	

Part III Tax on Excess Contributions to Traditional IRAs

Complete this part if you contributed more to your traditional IRAs for 2000 than is allowable or you had an excess contribution on line 16 of your 1999 Form 5329.

9	Enter your excess contributions from line 16 of your 1999 Form 5329. If zero, go to line 15			9	
10	If your traditional IRA contributions for 2000 are less than your maximum allowable contribution, see page 3. Otherwise, enter -0-	10			
11	Taxable 2000 distributions from your traditional IRAs	11			
12	2000 withdrawals of prior year excess contributions included on line 9. See page 3	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 2000. See page 3. 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, 2000 (including contributions for 2000 made in 2001). Also include this amount on Form 1040, line 54			17	

For Paperwork Reduction Act Notice, see page 4 of separate instructions. Cat. No. 13329Q Form **5329** (2000)

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

2000

Attachment Sequence No. **48**

Name. If married, file a separate form for each spouse required to file Form 8606. See page 5 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 and SIMPLE IRAs (Nondeductible Contributions, Distributions, and Basis)**

Complete Part I if:

- You made nondeductible contributions to a traditional IRA for 2000,
- You received distributions from a traditional or SIMPLE IRA in 2000 **and** you made nondeductible contributions to a traditional IRA in 2000 or an earlier year, **or**
- You converted part, but not all, of your traditional or SIMPLE IRAs to Roth IRAs in 2000 **and** you made nondeductible contributions to a traditional IRA in 2000 or an earlier year. See the instructions for lines 8, 11, and 15 for special computations.

1	Enter your nondeductible contributions to traditional IRAs for 2000, including those made for 2000 from January 1, 2001, through April 16, 2001. See page 5 of the instructions	1	0
2	Enter your total basis in traditional IRAs for 1999 and earlier years. See page 5 of the instructions	2	2,000
3	Add lines 1 and 2	3	2,000

Did you receive any distributions from traditional or SIMPLE IRAs or make a Roth IRA conversion in 2000?

- **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, 2001, through April 16, 2001. See page 5 of the instructions	4	0
5	Subtract line 4 from line 3	5	2,000
6	Enter the value of **all** your traditional and SIMPLE IRAs as of December 31, 2000, plus any outstanding rollovers. See page 5 of the instructions	6	1,800
7	Enter your total distributions from traditional and SIMPLE IRAs in 2000. **Do not** include rollovers or Roth IRA conversions. See page 5 of the instructions	7	600
8	Add lines 6 and 7. (But if you converted any amount from traditional or SIMPLE IRAs to Roth IRAs in 2000, see page 5 of the instructions 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 2000	10	500
11	Subtract line 10 from line 5. (But if you converted any amount from traditional or SIMPLE IRAs to Roth IRAs in 2000, see page 6 of the instructions for the amount to enter.) This is your basis in traditional IRAs as of December 31, 2000	11	1,500
12	Add lines 4 and 11. This is your **total basis in traditional IRAs for 2000 and earlier years**	12	1,500
13	**Taxable distributions from traditional and SIMPLE IRAs.** Subtract line 10 from line 7. Also include this amount on Form 1040, line 15b; Form 1040A, line 11b; or Form 1040NR, line 16b	13	100

Part II **2000 Conversions From Traditional or SIMPLE 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 2000, you* ***cannot*** *convert any amount from traditional or SIMPLE IRAs to Roth IRAs for 2000. If you erroneously made a conversion, you must recharacterize (correct) the conversion. See page 6 of the instructions for details.*

14a	Enter the total amount you converted from traditional and SIMPLE IRAs to Roth IRAs in 2000	14a	
b	Enter the portion of the amount on line 14a that you **recharacterized** back to a traditional or SIMPLE IRA. **Do not** include earnings or reduce the amount by any loss that occurred. See page 3 of the instructions	14b	
c	Subtract line 14b from line 14a. This is the net amount you converted to Roth IRAs in 2000	14c	
15	Enter your basis in the amount on line 14c from traditional IRAs. See page 6 of the instructions	15	
16	**Taxable amount of conversions.** Subtract line 15 from line 14c. Also include this amount on Form 1040, line 15b; Form 1040A, line 11b; or Form 1040NR, line 16b	16	

For Paperwork Reduction Act Notice, see page 8. Cat. No. 63966F Form **8606** (2000)

APPENDIX D. *(Continued)*

Form **8606** — **Nondeductible IRAs**

Department of the Treasury
Internal Revenue Service

► See separate instructions.
► Attach to Form 1040, Form 1040A, or Form 1040NR.

OMB No. 1545-1007
2000
Attachment Sequence No. 48

Name. If married, file a separate form for each spouse required to file Form 8606. See page 5 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 and SIMPLE IRAs (Nondeductible Contributions, Distributions, and Basis)**

Complete Part I if:

- You made nondeductible contributions to a traditional IRA for 2000,
- You received distributions from a traditional or SIMPLE IRA in 2000 **and** you made nondeductible contributions to a traditional IRA in 2000 or an earlier year, **or**
- You converted part, but not all, of your traditional or SIMPLE IRAs to Roth IRAs in 2000 **and** you made nondeductible contributions to a traditional IRA in 2000 or an earlier year. See the instructions for lines 8, 11, and 15 for special computations.

1	Enter your nondeductible contributions to traditional IRAs for 2000, including those made for 2000 from January 1, 2001, through April 16, 2001. See page 5 of the instructions	0
2	Enter your total basis in traditional IRAs for 1999 and earlier years. See page 5 of the instructions	1,500
3	Add lines 1 and 2	1,500

Did you receive any distributions from traditional or SIMPLE IRAs or make a Roth IRA conversion in 2000?
- **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, 2001, through April 16, 2001. See page 5 of the instructions	0
5	Subtract line 4 from line 3	1,500
6	Enter the value of **all** your traditional and SIMPLE IRAs as of December 31, 2000, plus any outstanding rollovers. See page 5 of the instructions	0
7	Enter your total distributions from traditional and SIMPLE IRAs in 2000. **Do not** include rollovers or Roth IRA conversions. See page 5 of the instructions	1,300
8	Add lines 6 and 7. (But if you converted any amount from traditional or SIMPLE IRAs to Roth IRAs in 2000, see page 5 of the instructions for the amount to enter.)	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"	× 1.000
10	Multiply line 7 by line 9. This is the amount of your nontaxable distributions for 2000	1,300
11	Subtract line 10 from line 5. (But if you converted any amount from traditional or SIMPLE IRAs to Roth IRAs in 2000, see page 6 of the instructions for the amount to enter.) This is your basis in traditional IRAs as of December 31, 2000	200
12	Add lines 4 and 11. This is your **total basis in traditional IRAs for 2000 and earlier years**	200
13	**Taxable distributions from traditional and SIMPLE IRAs.** Subtract line 10 from line 7. Also include this amount on Form 1040, line 15b; Form 1040A, line 11b; or Form 1040NR, line 16b	

Part II **2000 Conversions From Traditional or SIMPLE 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 2000, you* ***cannot*** *convert any amount from traditional or SIMPLE IRAs to Roth IRAs for 2000. If you erroneously made a conversion, you must recharacterize (correct) the conversion. See page 6 of the instructions for details.*

14a	Enter the total amount you converted from traditional and SIMPLE IRAs to Roth IRAs in 2000	
b	Enter the portion of the amount on line 14a that you **recharacterized** back to a traditional or SIMPLE IRA. **Do not** include earnings or reduce the amount by any loss that occurred. See page 3 of the instructions	
c	Subtract line 14b from line 14a. This is the net amount you converted to Roth IRAs in 2000	
15	Enter your basis in the amount on line 14c from traditional IRAs. See page 6 of the instructions	
16	**Taxable amount of conversions.** Subtract line 15 from line 14c. Also include this amount on Form 1040, line 15b; Form 1040A, line 11b; or Form 1040NR, line 16b	

For Paperwork Reduction Act Notice, see page 8. Cat. No. 63966F Form **8606** (2000)

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 (continued)
(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 $170,000 in 2000. 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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+++W FORMAT stack is empty - can't POP
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