

ST15-07 IRA Non-Deductible Contributions and Distributions

References:

- Instructions for Form 8606
- IRS Pub 4012 Tab D

IRA Non-Deductible Contributions & Distributions

- IRA non-deductible contributions
- IRA distributions after non-deductible contributions
- Roth IRA non-qualified distributions are OUT OF SCOPE

IRA Non-Deductible Contributions

- Non-Deductible Contributions
 - Alternative when the deductible amount is limited by Income and/or a Retirement Plan
- Can be made up to the maximum for year
 - Total of Deductible and Non-Deductible cannot exceed maximum for year.
 - \$5,500(\$6,500 if taxpayer is 50 or older yrs of age) max for 2015
- In TaxWise the IRA worksheet calculates the non-deductible contribution

Reporting Non-Deductible Contributions

- Non-Deductible contributions MUST be reported on Form 8606
 - Creates a basis for IRA Withdrawals
 - If it is not reported, there is no tax-free benefit on the distribution
- Form 8606 provides cumulative record
 - Non-Deductible Contributions (cost basis) for distributions

Form 8606 Description

- Part I – For reporting non-deductible contributions as well as distributions
 - Distributions reported here only if there were non-deductible contributions
- Part II – Conversions – **Out-Of-Scope**
- Part III – non-qualified distributions from Roth IRAs – **Out of Scope**

Non-Deductible Contributions entered in TaxWise

- Enter IRA contributions in the IRA worksheet. Taxwise will calculate how much of the contribution was non-deductible (after tax).
- Form 8606 populates the form tree after entering the IRA worksheet
 - If distributions enter first the 8606 will already be there.
- TaxWise enters the amount in Line 1, Part I (from IRA worksheet).
- Taxpayer must provide amount for entry into Line 2 (basis for earlier years).

IRA Distributions after Previous Years of Non-deductible Contributions

- If there have been non-deductible contribution(s) in a 1099R distribution:
 - The taxpayer must have the 8606. If non-deductible distributions were taken in the previous year, the 8606 should be part of that return.
 - Complete the 1099-R as you normally would
 - Check first box on Line 5 of 1099-R, Exclusion Worksheet. This activates Form 8606. **IMPORTANT**
 - Form 8606 automatically populates in the tree when Exclusion Worksheet Line 5 is checked
 - **Do not use “Add Form”.**

VERY IMPORTANT!

- If distributions and contributions were made in the current tax year:
 - **Enter the distributions first from the 1099-R with line 5 checked in the 1099-R exclusion worksheet. Checking line 5 populates the 8606 to the tree.**
 - Complete the form 8606 line 2
 - Add the IRA worksheet for the contributions.
 - Complete lines 4& 6 of the form 8606.
- **Do NOT create a Form 8606 by using “Add Form”**

ST15-07 IRA Non-Deductible Contributions and Distributions

Example of entering IRA Distributions after previous years of Non-deductible Contributions in TaxWise.

Mr. Al Capone is 61 years old. He has taken a \$50,000 distribution from an IRA in which he had made \$12,500 in non-deductible contributions in previous years. His total of all of his IRAs is \$450,000. He has not made a contribution for 2014.

Step 1 – Enter the 1099-R for the IRA distribution. Leave Box 2 the taxable amount blank. Box 2 will be red. Complete any other boxes as required from the paper 1099-R. Be sure you check the IRA/SEP/ Simple box” in box 7.

Step 2 – Go to the 1099-R Exclusion Worksheet and check the box below step 5. The 8606 will appear in the tree. If it doesn't appear in the tree you did something wrong. Do not manually add it to the tree.

1099-R Exclusion Worksheet

Exclusion Worksheet	
1 Amount rolled over	0
2 Amount, up to \$100,000, paid directly by the trustee of the IRA to a charitable organization. The donor must have been at least 70 1/2 when the distribution was made	0
3 Amount rolled over into an HSA. This election is irrevocable and can only be done once in the recipient's lifetime	0
4 Retired public safety officers - amount, up to \$3,000, paid directly from a qualified governmental plan to pay health or qualified long-term care insurance for the taxpayer, spouse, or dependents	0
5 Excludable amount due to a tax-free exchange; as calculated in a previous year; or by law, is specifically tax-exempt	0
* If the distribution is from a traditional, SEP, or SIMPLE IRA and you ever made nondeductible IRA contributions, check here	<input checked="" type="checkbox"/>
* If this is a conversion from a traditional IRA to a Roth IRA, check here	<input type="checkbox"/>
If only PART of this distribution was converted to a Roth IRA, enter the amount converted	0

Check this box on the Exclusion Worksheet in the 1099R if there are non-deductible contributions.

Out of Scope

ST15-07 IRA Non-Deductible Contributions and Distributions

Step 3 - Complete the 8606. Complete lines 2, 4 and 6 of the 8606.

Line 2 – Enter total basis in traditional IRAs. See chart below.

Total Basis Chart

IF the last Form 8606 you filed was for . . .	THEN enter on line 2 . . .
A year after 2000 and before 2015	The amount from line 14 of that Form 8606
A year after 1992 and before 2001	The amount from line 12 of that Form 8606
A year after 1988 and before 1993	The amount from line 14 of that Form 8606
1988	The total of the amounts on lines 7 and 16 of that Form 8606
1987	The total of the amounts on lines 4 and 13 of that Form 8606

Line 4 – Enter any contributions made between 1/1/2016 and 4/15/2016

Line 6 – Enter all the value of all IRAs on 12/31/2015 for TP and SP.

1	Nondeductible contributions to traditional IRAs for 2015, including those made for 2015 from January 1, 2016, through April 15, 2016	6500
2*	Enter your total basis in traditional IRAs (see instructions)	12500
3	Add lines 1 and 2 In 2015, did you take a distribution from traditional, SEP, or SIMPLE IRAs or make a Roth IRA conversion? No Enter the amount from line 3 on line 14. Do not complete the rest of Part I. Yes Go to line 4.	19000
4	Enter those contributions included on line 1 that were made from January 1, 2016, through April 15, 2016	0
5	Subtract line 4 from line 3	0
6*	Enter the value of ALL your traditional, SEP, and SIMPLE IRAs as of December 31, 2015, plus any outstanding rollovers	450000
7	Total distributions from traditional, SEP, and SIMPLE IRAs in 2015. DO NOT include rollovers, a one-time distribution to fund an HSA, conversions to a Roth IRA, certain returned contributions, or recharacterizations of traditional IRA contributions	0
8	Net amount you converted from traditional, SEP, and SIMPLE IRAs to Roth IRAs in 2015. DO NOT include amounts converted that you later recharacterized. This amount is also entered on line 16	0
9	Add lines 6, 7, and 8	450000

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Step 4 – TaxWise calculates the taxable amount of the \$50,000 distribution to be \$48,750 and will put that number on line 15b of the 1040 page 1. Check the box below line 15 of the 1040 if applicable. Check the 1040 line 15b to be sure the proper amount has been carried over to that line.

The NJ IRA worksheet must be completed for this IRA to be included on NJ 1040 line 19a and 19b. The taxed contributions for the IRA worksheet should include all of the IRA contributions made if know if this is the first year of distributions. If not the first year, use the amounts from the previous year’s NJ IRA Wkt.

Worksheet	
1 Traditional IRA basis as of 12/31/2014	12500
2 Traditional IRA contributions for 2015, whether or not deductible	0
3 Add lines 1 and 2	12500
4 Value of ALL traditional IRAs as of 12/31/2015	450000
5 Total distributions from traditional IRAs including amounts converted to Roth IRAs	50000
6 Add lines 4 and 5	500000
7 Divide line 3 by line 6	0.0250
8 Nontaxable portion of distribution. Multiply line 5 by line 7	1250
9 Taxable portion before conversions. Subtract line 8 from line 5	48750
10 Amount of line 9 that is allocable to amounts converted to Roth IRAs by 12/31/2015	0
11 Taxable portion of distribution after adjustment for conversions. Subtract line 10 from line 9	48750
10 Divide line 5 by line 9	0.0250
11 Multiply line 8 by line 10. This is the nontaxable portion of the amount you converted to Roth IRAs. This amount is also entered on line 17	0
12 Multiply line 7 by line 10. This is the nontaxable portion of your distributions that you did not convert to a Roth IRA	1250
13 Add lines 11 and 12. This is the nontaxable portion of all your distributions	1250
14 Total basis in traditional IRAs for 2015 and earlier years. Subtract line 13 from line 3	11250
15 Taxable amount. Subtract line 12 from line 7	48750
Note: You may be subject to an additional 10% tax on the amount on line 15 if you were under age 59 1/2 at the time of the distribution. If this distribution is subject to the penalty, check <input type="checkbox"/> F3 if no penalty	

This facsimile form is not approved for filing directly to the IRS.

Check or Ctrl-Space as applicable

Taxable Amount

ST15-07 IRA Non-Deductible Contributions and Distributions

Example of entering Non-deductible contributions in TaxWise

The same taxpayer as above. He is single. He has W-2 income which includes contributions to a 401K. He wants to contribute to an IRA, but his income and the fact that he has contributed to a 401K prevents him from making a deductible contribution. He decides to make a maximum contribution to an IRA as a non-deductible contribution. Al has \$12,500 of non-deductible contributions from previous years. The value of all of his IRAs as of 12/31/15 is \$450,000.00.

Step 1 – If there are distributions for the same year, do them first. Complete an IRA worksheet. You can link to the IRA Wkt from line 32 of the Form 1040 Page 1. Enter the IRA contribution for 2015 on line 10 of the IRA Wkt. For Al the amount is \$6,500.

US		Deductible and Nondeductible IRA Worksheet		2015	
Name: <u>AL CAPONE</u>		SSN: <u>106-03-0752</u>			
Traditional IRA Contributions					
Were you covered by a retirement plan?				<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If married filing jointly, was your spouse covered by a retirement plan?				<input type="checkbox"/> Yes	<input type="checkbox"/> No
				Taxpayer	Spouse
1 Maximum modified AGI for deductible contributions					
Filing status	Covered by a retirement plan?	Yes	No		
1 or 4		\$71,000	No limit		
2	Spouse covered by a plan	\$118,000			
2	Spouse not covered by a plan		\$193,000		
2	Neither spouse covered by a plan		No limit		
3	Lived with spouse at anytime in 2015	\$10,000	No limit		
3	Did not live with spouse in 2015	\$71,000	No limit		
5		\$118,000	No limit	71000	0
2 Modified AGI computation					
Social security computation without IRA		75000			
Taxable social security for this computation		0			
Modified income including taxable social security		75000			
3 Adjustments to income without IRA contribution		0			
4 Modified AGI. Subtract line 3 from line 2		75000		75000	0
5 Line 1 minus line 4. If -0- or less, enter -0- on line 6		-4000		-4000	0
6 Line 5 times the applicable percentage from the instructions, rounded up to nearest \$10. Do not enter less than \$200, or more than \$5,500 (\$6,500 if age 50 or older)		0		0	0
7 Total wages and other earned income, minus any deductions on Form 1040, lines 27 and 28, or Form 1040NR, line 27. Do not reduce wages by any losses from self-employment		75000			
8 Maximum contribution based on earnings				6500	
				Taxpayer	Spouse
9 Maximum allowable traditional IRA contribution				6500	0
10 Enter traditional IRA contributions for 2015. Do NOT enter more than \$5,500 (\$6,500 if age 50 or older) in either column				6500	0
11 Deductible IRA contributions. Smaller of lines 6, 7, 9, or 10				0	0
12 Nondeductible IRA contributions				6500	0
13 Excess traditional IRA contributions				0	0

Contribution made to IRA

Non-Deductible IRA Contribution

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Step 2 – Open Form 8606 which will populate the tree once the IRA Wkt is complete. If distributions were entered first the 8606 will already be in the tree and it will turn red. The nondeductible IRA amount will be carried forward from the IRA Wkt to line 1 of the 8606. Enter on line 2 the total basis (non-deductible contributions) of traditional IRAs for 2014 and earlier years. For AI this amount is \$12,500. This information can be found in the previous years 8606, line 14. If there are no IRA distributions, you are done. The amount from line 3 will carry to line 14 (not shown).

If there are distributions, you should have done them first. Delete the IRA Wkt and the 8606 and do the distribution first and then do the contribution.

Note: The taxpayer must provide the value of all Traditional IRAs- Form(s) 5498 (or year-end statement)

US 8606	Nondeductible IRAs	2015
Name:	AL CAPONE	SSN: 106-03-0752
<input type="checkbox"/> Check if filing this form by itself and not with your tax return Address information is filled in only if you are filing this form by itself.		
Present home address		
City, town or post office, state, ZIP code		
Foreign country and state		
Foreign postal code		

Part I: Nondeductible Contributions to Traditional IRAs and Distributions from Traditional, SEP, and SIMPLE IRAs

Complete this part only if one or more of the following apply.

- You made nondeductible contributions to a traditional IRA for 2015.
- You took distributions from a traditional, SEP, or SIMPLE IRA in 2015 and you made nondeductible contributions to a traditional IRA in 2015 or an earlier year. For this purpose, a distribution does not include a rollover, one-time distribution to fund an HSA, conversion, recharacterization, or return of certain contributions.
- You converted part, but not all, of your traditional, SEP, and SIMPLE IRAs to Roth IRAs in 2015 (excluding any portion you recharacterized) and you made nondeductible contributions to a traditional IRA in 2015 or an earlier year.
- For distributions, be sure to fill in lines 2 and 6.

TaxWise enters this amount from the IRA worksheet on line 1.

1	Nondeductible contributions to traditional IRAs for 2015, including those made for 2015 from January 1, 2016, through April 15, 2016	6500
2*	Enter your total basis in traditional IRAs (see instructions)	12500
3	Add lines 1 and 2	19000
In 2015, did you take a distribution from traditional, SEP, or SIMPLE IRAs or make a Roth IRA conversion? No Enter the amount from line 3 on line 14. Do not complete the rest of Part I. Yes Go to line 4.		
4	Enter those contributions included on line 1 that were made from January 1, 2016, through April 15, 2016	
5	Subtract line 4 from line 3	
6*	Enter the value of ALL your traditional, SEP, and SIMPLE IRAs as of December 31, 2015, plus any outstanding rollovers	
7	Total distributions from traditional, SEP, and SIMPLE IRAs in 2015. DO NOT include rollovers, a one-time distribution to fund an HSA, conversions to a Roth IRA, certain return of contributions, or conversions to a Roth IRA, certain return of contributions, or conversions to a Roth IRA, certain return of contributions.	
8	Net amount you converted from traditional IRAs to Roth IRAs in 2015. DO NOT include conversions to a Roth IRA, certain return of contributions, or conversions to a Roth IRA, certain return of contributions.	
9	Add lines 6, 7, and 8	0

Taxpayer must provide the amount for entry into Line 2 (basis for earlier years) from a previous year's 8606 line 14. If this information is not available the 8606 cannot be completed and all contributions will be taxable

The amount from line 3 will carry to line 14 (not shown) less any distributions. If there are distributions, you should have done them first.