ST12-07 IRA Non-Deductible Contributions and Distributions

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.
  - $5,000($6,000 over 50 yrs of age) max for 2012
- In TaxWise the IRA worksheet calculates the non-deductable 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**
- Part IV: 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-deductable (after tax).
- Form 8606 populates the form tree after entering the IRA worksheet
- 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).

Watch Out

- Form 8606 automatically populates on the tree when Exclusion Worksheet Line 5 is checked

- **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”

ST12-07 IRA Non-Deductible Contributions and Distributions

Example
Mr. Al Capone is 61 years old. He has W-2 income which includes 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 deductable contribution. He decides to make a maximum contribution to an IRA as a non-deductable contribution. Al has $12,500 of non-deductable contributions from previous years. The value of all of his IRAs as of 12/31/12 is $450,000.00.

Step 1 – 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 2012 on line 10 of the IRA Wkt. For Al the amount is $6,000.

Name: AL CAPONE SSN: 111-03-0752

Traditional IRA Contributions

Were you covered by a retirement plan? ☑ Yes ☐ No
If married filing jointly, was your spouse covered by a retirement plan? ☐ Yes ☐ No

				Taxpayer	Spouse
1 Maximum modified AGI for deductible contributions					
Filing status	Covered by a retirement plan?	Yes	No		
1 or 4		$66,000	No limit		
2	Spouse covered by a plan	$110,000			
2	Spouse not covered by a plan		$179,000		
2	Neither spouse covered by a plan		No limit		
3	Lived with spouse at anytime in 2011	$10,000	No limit		
3	Did not live with spouse in 2011	$66,000	No limit		
5		$110,000	No limit	66000	0

		Taxpayer	Spouse
2 Modified AGI computation			
Social security computation without IRA	136520		
Taxable social security for this computation	0		
Modified income including taxable social security	136520		
3 Adjustments to income without IRA contribution	0		
4 **Modified AGI.** Subtract line 3 from line 2		136520	0
5 Line 1 minus line 4. If -0- or less, enter -0- on line 6		-70520	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 $5,000 ($6,000 if age 50 or older)		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	85000		
8 Maximum contribution based on earnings	6000	Taxpayer	Spouse
9 Maximum allowable traditional IRA contribution		6000	0
10 **Enter traditional IRA contributions for 2011.** Do NOT enter more than $5,000 ($6,000 if age 50 or older) in either column		6000	0
11 **Deductible IRA contributions.** Smaller of lines 6, 7, 9, or 10		0	0
12 Nondeductible IRA contributions		6000	0
13 Excess traditional IRA contributions		0	0

ST12-07 IRA Non-Deductible Contributions and Distributions

Step 2 – Open Form 8606 which will populate the tree once the IRA Wkt is complete. 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 2011 and earlier years. For Al this amount is $12,500. This information can be found in the previous years 8606s. If there are no IRA distributions, you are done.

US 8606 | **Nondeductible IRAs** | **2012**

Name: Al Capone | SSN: 111-03-0752

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 2012.
- You took distributions from a traditional, SEP, or SIMPLE IRA in 2012 and you made nondeductible contributions to a traditional IRA in 2012 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 2012 (excluding any portion you recharacterized) and you made nondeductible contributions to a traditional IRA in 2012 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 2012, including those made for 2012 from January 1, 2013, through April 15, 2013		6000
2*	Enter your total basis in traditional IRAs for 2011 and earlier years		12500
3	Add lines 1 and 2		18500
	In 2012, 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, 2013, through April 15, 2013		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, **2012**, plus any outstanding rollovers	0	
7	Total distributions from traditional, SEP, and SIMPLE IRAs in 2012. DO NOT include rollovers, qualified charitable distributions, 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 2012. 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	0	

Taxpayer must provide the amount for entry into Line 2 (basis for earlier years). If this information is not available the 8606 cannot be completed and all contributions will be taxable when withdrawn.

If no distributions, form is complete. The amount from line 3 will carry to line 14 (not shown)

If there are distributions, complete lines 4 &6 and TaxWise will do the calculation to pro-rate non-taxable amount (basis) over the life of the IRA.

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

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<u>IRA Distributions after Non-deductable Contributions</u>

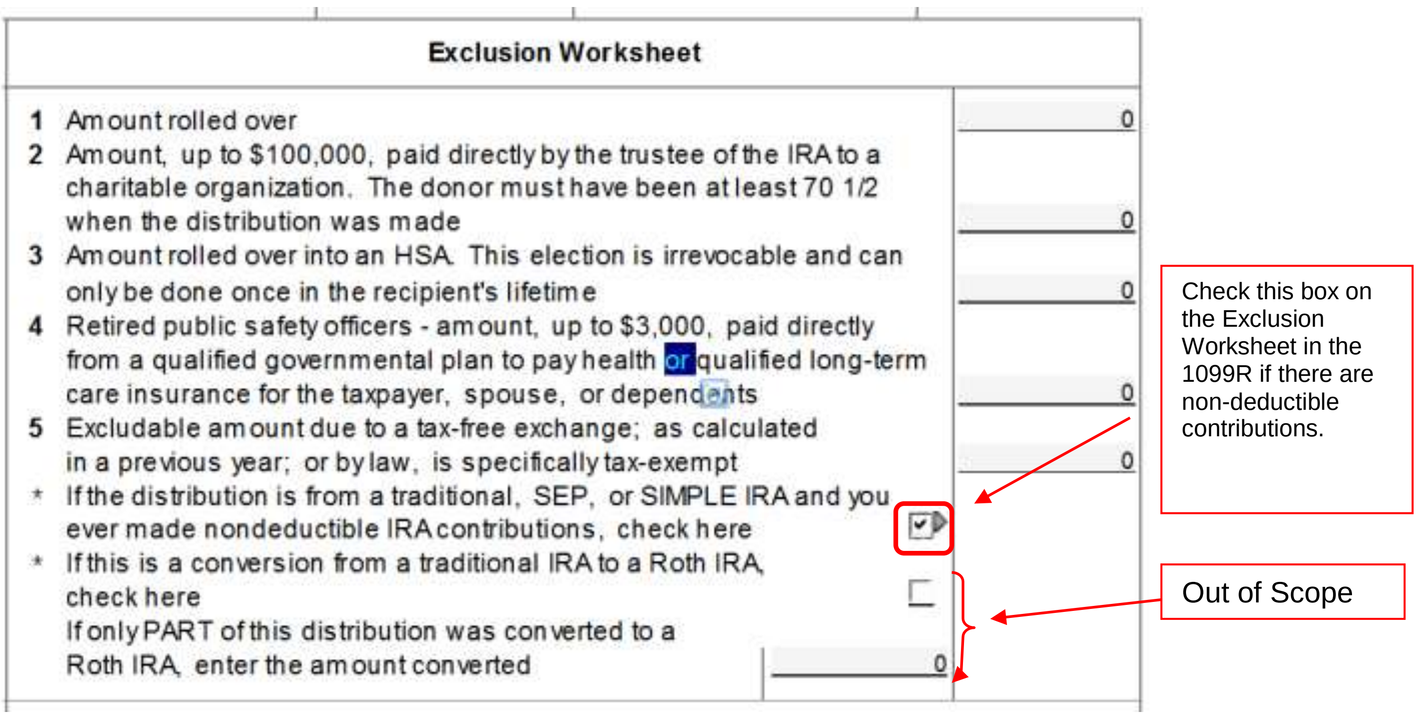
- If there have been non-deductible contribution(s) in the 1099R distribution:
  - Check first box on Line 5 of 1099-R, Exclusion Worksheet. This activates Form 8606.
    IMPORTANT
  - Select 8606 from the tree and complete

Example
Let's use the same taxpayer. He has taken a $50,000 distribution from an IRA in which he had made $12,500 in non-deductable contributions in previous years. His total of all of his IRAs is $450,000. He has not made a contribution for 2012.

Step 1 – Enter the 1099-R for the IRA distribution. Do not check "Taxable Amount Not determined". Leave Box 2 the taxable amount blank. Box 2 will be red. Complete any other boxes as required by the paper 1099-R.

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
* If this is a conversion from a traditional IRA to a Roth IRA, check here
If only PART of this distribution was converted to a Roth IRA, enter the amount converted 0

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

1	Nondeductible contributions to traditional IRAs for 2012, including those made for 2012 from January 1, 2013, through April 15, 2013			0
2*	Enter your total basis in traditional IRAs for 2011 and earlier years			12500
3	Add lines 1 and 2			12500
	In 2012, 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, 2013, through April 15, 2013			0
5	Subtract line 4 from line 3			12500
6*	Enter the value of ALL your traditional, SEP, and SIMPLE IRAs as of December 31, **2012,** plus any outstanding rollovers		450000	
7	Total distributions from traditional, SEP, and SIMPLE IRAs in 2012. DO NOT include rollovers, qualified charitable distributions, a one-time distribution to fund an HSA, conversions to a ROTH IRA, certain returned contributions, or recharacterizations of traditional IRA contributions		50000	
8	Net amount you converted from traditional, SEP, and SIMPLE IRAs to Roth IRAs in 2012. 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	500000		

ST12-07 IRA Non-Deductible Contributions and Distributions

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.

Worksheet		
1	Traditional IRA basis as of 12/31/2011	12500
2	Traditional IRA contributions for 2012, whether or not deductible	0
3	Add lines 1 and 2	12500
4	Value of ALL traditional IRAs as of 12/31/2012	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	0.025
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 12/31/2012	0
11	Taxable portion of distribution after adjustment for conversions. Subtract line 10 from line 9	48750

10	Divide line 5 by line 9	0.025	
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 2012 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. F3 if no penalty ☐

Taxable Amount

Check or Ctrl-Space as applicable