## 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 2011
- 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 lines 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"

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# **Example**

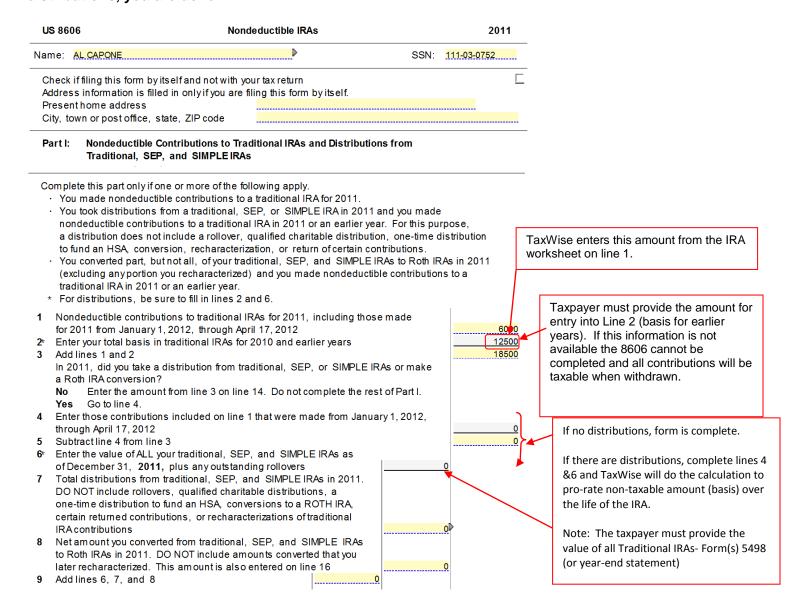
Mr. Al Capone is 61 years old. He has W-2 income which includes a 401K. He wants to contribute to an IRA, but his income and the fact that he has contributed to a 401K prevents him from making a deductable contribution. He decides to make a maximum contribution to an IRA as a non-deductable contribution. Al has \$12,500 of non-deductable contributions from previous years. The value of all of his IRAs as of 12/31/11 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 2011 on line 10 of the IRA Wkt. For AI the amount is \$6,000.

Na	me: AL	CAPONE			SSN: 11	1-03-0752
		Traditional IR/	A Contribu	ıtions		
	-	covered by a retirement plan? filing jointly, was your spouse covered b	y a retirem	nent plan?		Yes No Yes No
					Taxpayer	Spouse
1	Maximu Filing	ım modified AGI for deductible contribution	ons			
	status	Covered by a retirement plan?	Yes	No		
	1 or 4 2	Spouse covered by a plan	\$66,00 \$110,00			
	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	\$10,00			
	3	Did not live with spouse in 2011	\$66,00			
	5		\$110,00	0 No limit	66000	0
2		I AGI computation				
		ecurity computation without IRA		136520		
		social security for this computation		0		
		l income including taxable social securit	y	136520		
	•	ents to income without IRA contribution		0		
	Modified AGI. Subtract line 3 from line 2				136520	0
	Line 1 minus line 4. If -0- or less, enter -0- on line 6				-70520	0
6		mes the applicable percentage from the				
		arest \$10. Do not enter less than \$200,	ian \$5,000		0	
7		ifage 50 or older) iges and other earned income, minus a	iono on	0	0	
,		iges and other earned income, minus a 140, lines 27 and 28, or Form 1040NR,				
		wages by any losses from self-employm		85000		
		wages by any resses wern sen employin				
8	Maximu	m contribution based on earnings		6000 <sup>l</sup>	Taxpayer	Spouse
9 Maximum allowable traditional IRA contribution					6000	0
10	Enter tra	aditional IRA contributions for 2011.	enter more			
than \$5,000 (\$6,000 if age 50 or older) in either column					6000	0
11	11 Deductible IRA contributions. Smaller of lines 6, 7, 9, or 10					0
12 Nondeductible IRA contributions					6000	0
13	Excess	traditional IRA contributions			0	0

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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 2010 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.



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#### **IRA Distributions after Non-deductable Contributions**

- 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

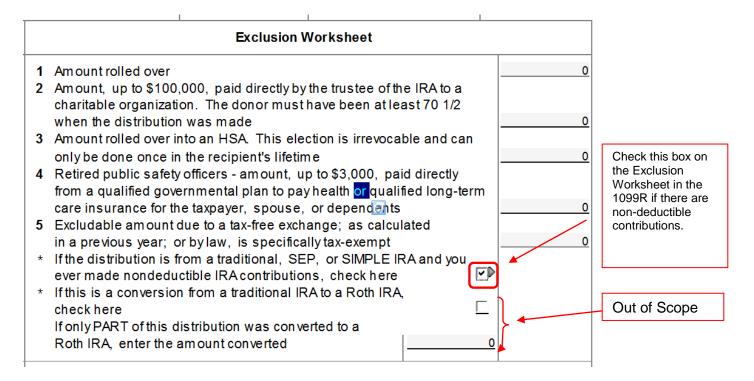
### **Example**

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 2011.

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.

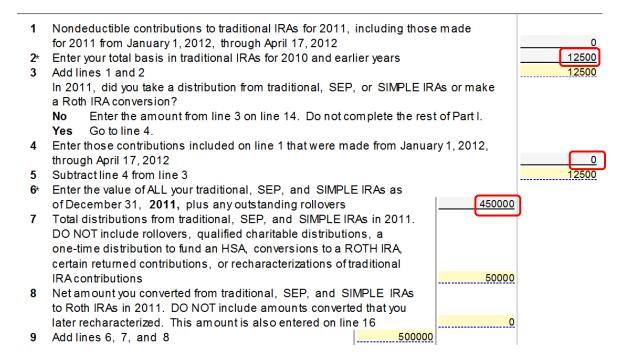
Step 2 – Go to the 1099-R exclusion Worksheet and check the box below step 5. The 8606 will appear in the tree.

#### 1099-R Exclusion Worksheet



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



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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.

	Worksheet			
	Traditional IRA basis as of 12/31/2010 Traditional IRA contributions for 2011, whether	12500		
_	or not deductible	0		
3	Add lines 1 and 2	12500	▶	
	Value of ALL traditional IRAs as of 12/31/2011	450000		
	Total distributions from traditional IRAs including			
_	amounts converted to Roth IRAs	50000		
6	Add lines 4 and 5	500000		
	Divide line 3 by line 6	0.025		
8				
·	by line 7	1250		
9				
·	line 8 from line 5	48750		
10	Amount of line 9 that is allocable to amounts			
	converted to Roth IRAs by 12/31/2011	0		
11	Taxable portion of distribution after adjustment			
٠.	for conversions. Subtract line 10 from line 9	48750		
Г	Divide line 5 by line 9		0.025	
	Aultiply line 9 by line 10. This is the pentayable nor	tion of the		
Ν	<i>f</i> lultiplyline 8 byline 10. This is the nontaxable por			
N a	mount you converted to Roth IRAs. This amount is			
N a li	mount you converted to Roth IRAs. This amount is ine 17	s also entered on	0	
N a li N	mount you converted to Roth IRAs. This amount is ine 17 <i>I</i> ultiply line 7 by line 10. This is the nontaxable por	s also entered on	0	
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