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 2013
- 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

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).

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
 - Do not check "Taxable Amount Not Determined" on the TaxWise 1099-R.
 - 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"

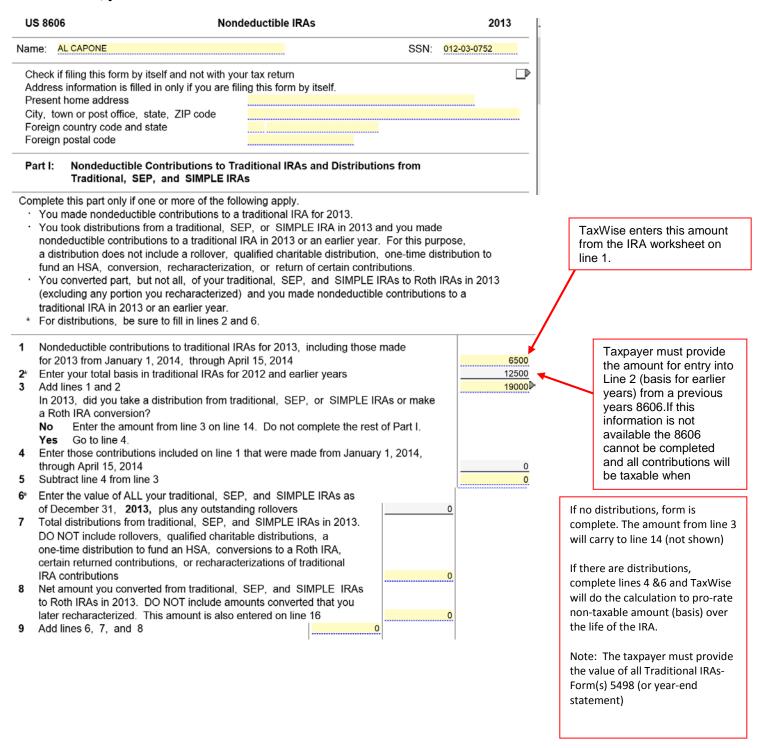
Example of entering Non-deductible contributions in TaxWise

Mr. Al Capone is 61 years old. He is single. 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 12/31/13 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 2013 on line 10 of the IRA Wkt. For AI the amount is \$6,500.

US		Deductible and Nondeductible IRA Worksheet			2013		
ame	e: AL CAPONE			SSN: 012-03-0752			
Traditional IRA Contributions							
Were you covered by a retirement plan? If married filing jointly, was your spouse covered by a retirement plan?						Yes No	
					Taxpayer	Spouse	
	1aximu iling	m modified AGI for deductible contribution	ns				
	atus	Covered by a retirement plan?	Yes	No			
1	or 4		\$69,000	No limit			
	2	Spouse covered by a plan	\$115,000	¢199.000			
	2 2	Spouse not covered by a plan Neither spouse covered by a plan		\$188,000 No limit			
	3	Lived with spouse at anytime in 2013	\$10,000	No limit			
	3	Did not live with spouse in 2013	\$69,000	No limit			
	5		\$115,000	No limit	69000	0	
		d AGI computation					
		security computation without IRA		136520			
		e social security for this computation		0			
		d income including taxable social security		136520			
		nents to income without IRA contribution ed AGI. Subtract line 3 from line 2		U	126520	0	
			0.6		136520 -67520	0	
 5 Line 1 minus line 4. If -0- or less, enter -0- on line 6 6 Line 5 times the applicable percentage from the instructions, rounded 					-01320	<u>U</u>	
up to nearest \$10. Do not enter less than \$200, or more than \$5,500							
		if age 50 or older)		40,000	0	0	
		ages and other earned income, minus an	y deductior	is on			
F	Form 1040, lines 27 and 28, or Form 1040NR, line 27. Do not						
re	educe	wages by any losses from self-employment	nt	85000			Contribution
8 N	/laximu	ım contribution based on earnings		6500	Taxpayer	Spouse	made to IR
.	lavies:	m allowable traditional IDA sastribution			0500		
	Maximum allowable traditional IRA contribution Enter traditional IRA contributions for 2013. Do NOT enter more				6500	0	
	than \$5,500 (\$6,500 if age 50 or older) in either column				6500	0	Non-
		ible IRA contributions. Smaller of line		or 10	0300	0	
		uctible IRA contributions	55 5, 1, 0,	5. 10	6500	0	deductible
		traditional IRA contributions			0	0	IRA
							Contribution

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 2012 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.



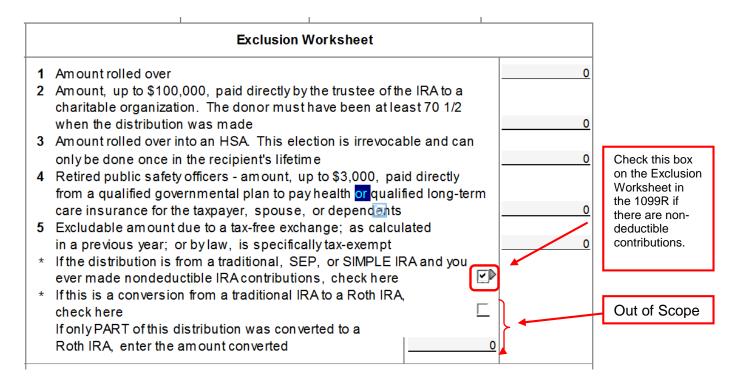
Example of entering IRA Distributions after previous years of Non-deductible Contributions in TaxWise

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-deductible contributions in previous years. His total of all of his IRAs is \$450,000. He has not made a contribution for 2013.

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

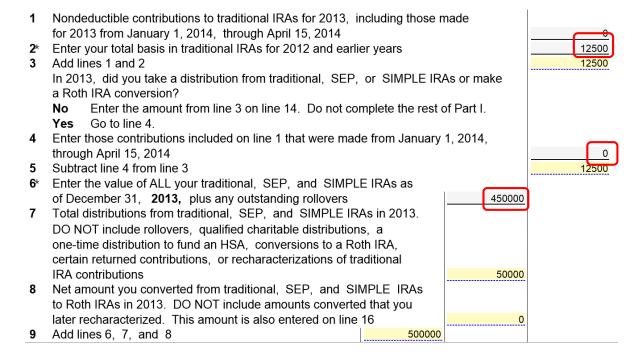
Step 2 – Go to the 1099-R exclusion Worksheet and check the box below step 5. The 8606 will appear in the tree. If it doesn't appear in the tree you did something wrong. Do not manually add it to the tree.

1099-R Exclusion Worksheet



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



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.

