Department of the Treasury
Internal Revenue Service

Publication 590
Cat. No. 15160x

Individual Retirement Arrangements (IRAs)

(Including SEP-IRAs and SIMPLE IRAs)

For use in preparing

1997 Returns

Get forms and other information faster and easier by:

COMPUTER
- World Wide Web ➤ www.irs.ustreas.gov
- FTP ➤ ftp.irs.ustreas.gov
- IRIS at FedWorld ➤ (703) 321-8020

FAX
- From your FAX machine, dial ➤ (703) 368-9694

See *How To Get More Information* in this publication.

Contents

Important Changes for 1997

Contributions to spousal IRAs. Beginning in 1997, in the case of a married couple filing a joint return, up to $2,000 can be contributed to each spouse's IRA, even if one spouse has little or no compensation. This means that the total combined contributions that can be made to both IRAs can be as much as $4,000 for the year. Previously, if one spouse had no compensation or elected to be treated as having no compensation, the total combined contributions to both IRAs could not be more than $2,250. See *Spousal IRA limit,* under *Contribution Limits,* in chapter 3.

Deduction for contributions to spousal IRA. Beginning in 1997, in the case of a married couple with unequal compensation who file a joint return, the limit on the deductible contributions to the IRA of the spouse with less compensation is the smaller of:

1) $2,000, or

2) The total compensation of both spouses, reduced by any deduction allowed for contributions to IRAs of the spouse with more compensation.

The deduction for contributions to both spouses' IRAs may be further limited if either spouse is covered by an employer retirement plan. See *Deduction Limits* in chapter 3.

Tax on prohibited transactions. The tax on the amount of a prohibited transaction that takes place after August 5, 1997, has increased from 10% to 15%. See *Prohibited Transactions* in chapter 6.

No additional tax on early withdrawals for certain medical expenses. Beginning in 1997, the 10% additional tax on premature distributions (early withdrawals) from an IRA will not apply to distributions up to the amount you pay for unreimbursed medical expenses that are more than 7½% of your adjusted gross income.

Also beginning in 1997, the 10% tax may not apply to distributions up to the amount you paid for medical insurance for yourself, your spouse, and your dependents.

See *Exceptions* under *Age 59½ Rule* in chapter 5.

Tax on excess distributions repealed. For IRA distributions made after 1996, there is no 15% tax on excess distributions. The Taxpayer Relief Act of 1997 repealed that tax.

New definition of highly compensated employee. Beginning in 1997, a highly compensated employee for purposes of a simplified employee pension (SEP) is any employee who meets either of the following two conditions.

1) The employee owns (or owned last year) more than 5% of the capital or profits interest in the employer (if not a corporation); or more than 5% of the outstanding stock, or more than 5% of the total voting power of all stock, of the employer corporation.

2) The employee's compensation from the employer for last year was more than $80,000 and (if the employer elects to apply this clause for last year) the employee was in the top 20% when ranked on the basis of last year's compensation.

SEPs are discussed in chapter 7.

New definition of leased employee. Beginning in 1997, the requirement that a leased employee (for purposes of a simplified employee pension (SEP)) be an individual whose services are of a type historically performed by employees in the recipient employer's field of business is replaced by the requirement that the individual perform services under the primary direction or control of the recipient employer. See chapter 7.

Salary reduction arrangement for SEPs repealed. Beginning in 1997, an employer cannot start a simplified employee pension (SEP) that includes a salary reduction arrangement. Only SEPs that allowed employees to choose elective deferrals as of December 31, 1996, can include salary reduction arrangements. SEPs are discussed in chapter 7.

Savings incentive match plans for employees (SIMPLE). Beginning in 1997, certain employers can set up SIMPLE retirement plans.

A SIMPLE plan can be set up either as an IRA or as part of a qualified cash or deferred arrangement (401(k) plan). SIMPLE plans are not subject to the nondiscrimination rules that generally apply to qualified plans. For more information on this new plan, get Publication 560, *Retirement Plans for Small Business.* SIMPLE IRAs are discussed in chapter 8.

Important Changes for 1998

The following changes will not affect your 1997 tax return. They are effective beginning in 1998. For more information on these and other changes to the tax law, get Publication 553, *Highlights of 1997 Tax Changes.*

Deduction — spouse covered by employer plan. Beginning in 1998, even if your spouse is covered by an employer retirement plan, you may be able to deduct your contributions to an IRA if you are not covered by an employer plan. The deduction is limited to $2,000 and it must be reduced if your adjusted gross income on a joint return is more than $150,000 but less than $160,000. Your deduction is eliminated if your income on a joint return is $160,000 or more.

As this publication was being prepared for print, Congress was considering legislation that would clarify its intent regarding the IRA deduction of a spouse who is not covered by an employer plan. See Publication 553.

Deduction — modified AGI limit increased. For 1998, if you are covered by a retirement plan at work, your IRA deduction will not be reduced (phased out) unless your modified adjusted gross income (AGI) is between:

- $50,000 (a $10,000 increase) and $60,000 for a married couple or a qualifying widow(er) filing a joint return,
- $30,000 (a $5,000 increase) and $40,000 for a single individual or head of household, or
- $–0– (no increase) and $10,000 for a married individual filing a separate return.

No additional tax on early withdrawals for higher education expenses. Beginning in 1998, you can take distributions from your IRA to pay qualified higher education expenses without having to pay the 10% additional tax on early withdrawals.

To qualify for this higher education expenses exception, a distribution must be used to pay qualified higher education expenses for:

1) You,

2) Your spouse,

3) Your or your spouse's children, or

4) Your or your spouse's grandchildren.

Qualified higher education expenses means tuition, fees, books, supplies, and equipment required for the enrollment or attendance of any of the individuals listed earlier at an eligible education institution. In addition, if the individual is at least a half-time student, room and board are qualified higher education expenses.

As this publication was being prepared for print, Congress was considering legislation that would modify the rules relating to rollovers to IRAs. Under the rules, certain hardship distributions from employer-sponsored retirement plans would not be treated as eligible rollover distributions. Such distributions may be subject to the 10% additional tax. See Publication 553.

No additional tax on early withdrawals to purchase first home. Beginning in 1998, you can take qualified first-time homebuyer distributions totalling $10,000 from your IRA without having to pay the 10% additional tax on early withdrawals.

To qualify under this first-time homebuyer exception, a distribution must be used to buy, build, or rebuild a first home that is the principal residence of:

1) Yourself,

2) Your spouse,

3) Your child, or your spouse's child,

4) Your grandchild, or your spouse's grandchild,

5) Your parent or other ancestor, or

6) Your spouse's parent or other ancestor

As this publication was being prepared for print, Congress was considering legislation that would modify the rules relating to rollovers to IRAs. Under the rules, certain hardship distributions from employer-sponsored retirement plans would not be treated as eligible rollover distributions. Such distributions may be subject to the 10% additional tax. See Publication 553.

Coins and bullion. Beginning in 1998, your IRA can invest in certain platinum coins and gold, silver, palladium, and platinum bullion.

Education individual retirement account (education IRA). Beginning in 1998, you may be able to make nondeductible contributions of up to $500 annually to an education IRA for a child until he or she reaches age 18. Earnings in the IRA accumulate free of income tax.

Distributions from an education IRA during the year are tax-free unless distributions from the education IRA are more than qualified higher education expenses during the year.

Roth IRA. Beginning in 1998, you may be able to establish and contribute to a new nondeductible tax-free individual retirement account called the Roth IRA. Unlike certain contributions to an ordinary 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.

You may be able to roll over amounts from an ordinary IRA into a Roth IRA, but any amount from the ordinary IRA that would be taxable if distributed must be included in your gross income. To avoid the penalty for underpayment of taxes, you may need to increase your income tax withholdings or make additional estimated tax payments.

As this publication was being prepared for print, Congress was considering legislation that would clarify its intent relating to the $2,000 contribution limit for contributions to all IRAs. The clarification takes into account the phase-out rules that limit deductions to ordinary IRAs and limit contributions to Roth IRAs. The legislation would also clarify tax treatment of rollovers to Roth IRAs. See Publication 553.

Important Reminders

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 IRA contributions and you do not file Form 8606, *Nondeductible IRAs (Contributions, Distributions, and Basis),* with your tax return, you may have to pay a $50 penalty.

Introduction

An individual retirement arrangement (IRA) is a personal savings plan that offers you tax advantages to set aside money for your retirement. Two advantages are that you may be able to deduct your contributions to your IRA in whole or in part, depending on your circumstances, and, generally, amounts in your IRA, including earnings and gains, are not taxed until they are distributed.

This publication explains the rules for setting up an IRA, contributing to it, transferring money or property to and from it, and making withdrawals 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.

SEP-IRAs and SIMPLE IRAs. Employees' IRAs that are set up to receive contributions from employers' retirement plans are discussed in chapter 7, *Simplified Employee Pension (SEP),* and chapter 8, *Savings Incentive Match Plans for Employees.*

Useful Items

You may want to see:

Publications

- ☐ **560** Retirement Plans for Small Business (Including SEP, Keogh, and SIMPLE Plans)
- ☐ **571** Tax-Sheltered Annuity Programs for Employees of Public Schools and Certain Tax-Exempt Organizations
- ☐ **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 Qualified Retirement Plans (Including IRAs), Annuities, Modified Endowment Contracts, and MSAs
- ☐ **5498** Individual Retirement Arrangement Information
- ☐ **8606** Nondeductible IRAs (Contributions, Distributions, and Basis)
- ☐ **8815** Exclusion of Interest From Series EE U.S. Savings Bonds Issued After 1989
- ☐ **8839** Qualified Adoption Expenses

See chapter 9 for information about getting these publications and forms.

1.

Who Can Set Up an IRA?

You can set up and make contributions to an IRA if you (or if you file a joint return, your spouse) received taxable ***compensation*** (defined later) during the year and you were not age 70½ by the end of the year.

Your IRA. You can have an IRA whether or not you are an active participant in (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 *Who is Covered by an Employer Plan?* in chapter 3.

What Is Compensation?

As stated earlier, to set up and contribute to an IRA, you or your spouse must have received taxable compensation. This rule applies whether your contributions are deductible or nondeductible. Generally, what you earn from working is compensation.

What Income 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, provided that amount is reduced by any amount properly shown in box 11 (Nonqualified plans).

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 your net earnings from your trade or business (provided your personal services are a material income-producing factor), reduced by your deduction for contributions on your behalf to retirement plans and the deduction allowed for one-half of your self-employment taxes.

If you invest in a partnership and do not provide services that are a material income-producing factor, your share of partnership income is not compensation.

Compensation also includes earnings from self-employment that 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 is the sum of the amounts.

Self-employment loss. If you have a net loss from self-employment, do not subtract the loss from salaries or wages you receive when figuring your total compensation.

Alimony and separate maintenance. All taxable alimony and separate maintenance payments you receive under a decree of divorce or separate maintenance are treated as compensation.

What Income 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),
- Foreign earned income and housing cost amounts that you exclude from income, or
- Any other amounts that you exclude from income.

2. When and How Can an IRA Be Set Up?

You can set up an IRA at any time. However, the time for making contributions for any year is limited. See *When to Contribute* in chapter 3.

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 IRAs

Your 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. Beginning in 1997, an IRA can be part of a savings incentive match plan for employees (SIMPLE). These IRAs are also called simple retirement accounts.

Individual Retirement Account

An individual retirement account is a trust or custodial account set up in the United States for your exclusive benefit or for the benefit of 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 7, can be more than $2,000.
3) Your contributions must be in cash, except that rollover contributions can be property other than cash. See *Rollovers* in chapter 4.
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 from your account by April 1 of the year following the year in which you reach age 70½. For detailed information on distributions from your IRA, see the discussion in chapter 5 under *Required Distributions*.

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) It must provide that you cannot transfer any portion of it to any person other than the issuer.

3) It must have flexible premiums so that if your compensation changes, your payment can also change. This provision applies to contracts issued after November 6, 1978.

4) It must provide that you cannot contribute 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) It must begin distributions by April 1 of the year following the year in which you reach age 70½. See *Required Distributions* in chapter 5.

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) You are paid interest on them only when you cash them in.

2) You are not paid any further interest after 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.

3) You cannot transfer the bonds.

4) You cannot sell, discount, or use the bonds as collateral or security.

If you cash (redeem) the bonds before the year in which you reach age 59½, you may be subject to a 10% penalty. See *Premature Distributions* in chapter 6. 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 rules for individual retirement accounts apply to these employer or union-established IRAs.

Simplified Employee Pension (SEP)

A simplified employee pension (SEP) is a written arrangement that allows your employer to make deductible contributions to an IRA (a SEP-IRA) set up for you to receive such contributions. See chapter 7, *Simplified Employee Pension (SEP),* for more information.

Savings Incentive Match Plans for Employees (SIMPLE)

A SIMPLE plan is a written arrangement (a qualified salary reduction arrangement) that generally allows an employer to make deductible contributions of part of your pay to a “simple retirement account.” A simple retirement account is an IRA (SIMPLE IRA) set up for you to receive contributions. See chapter 8 for more information.

Inherited IRAs

If you inherit an IRA, that IRA becomes subject to special rules. An IRA is included in the estate of the decedent who owned it.

Unless you are the decedent's surviving spouse, you cannot treat an inherited IRA as your own. This means that unless you are the surviving spouse, you cannot make contributions (including rollover contributions) to the IRA and you cannot roll it over. But, like the original owner, you generally will not owe tax on the assets in the IRA until you receive distributions from it.

If you are a surviving spouse, you can elect to treat an IRA inherited from your spouse as your own. You will be treated as having made this election if you:

- Make contributions (including rollover contributions) to the inherited IRA, or
- Do not make required distributions from it.

For more information, see the discussions of inherited IRAs in chapters 4 and 5 and the discussion of distributions to beneficiaries in chapter 5.

Required Disclosures

The trustee or issuer (sometimes called the sponsor) of the IRA you choose generally must give you a disclosure statement about your arrangement at least 7 days before you set up your IRA. However, the sponsor can give you the statement by the date you set up (or purchase, if earlier) your IRA, if 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 contain plain-language explanations of certain items. For example, the statement should provide information on when and how you can revoke the IRA, including 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.

3.

How Much Can I Contribute and Deduct

As soon as your IRA is set up, you can make contributions (put money in) to it through your chosen sponsor (trustee or other administrator). ***Contributions must be in the form of money*** (cash, check or money order). You cannot contribute property. However, you may be able to transfer or roll over certain property from one account to another. See the discussion of rollovers and other transfers in chapter 4.

You can make contributions to your IRA each year that you qualify. To qualify to make contributions, you must have received compensation (as discussed in chapter 1) and have not reached age 70½ during the year. For any year in which you do not work, you cannot make IRA contributions unless you receive alimony or file a joint return with a spouse who has compensation. See chapter 1. Even if you do not qualify to make contributions for the current year, the amounts you contributed for years in which you did qualify can remain in your IRA. You can resume making contributions for any years that you qualify.

There are limits and other rules that affect the amount you can contribute and the amount you can deduct. This chapter discusses those rules.

Contribution Limits

The most that you can contribute for any year to your IRA is ***the smaller of*** the following amounts:

- Your compensation (defined in chapter 1) 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 you can contribute regardless of whether your contributions are to one or more IRAs or whether all or part of your contributions are nondeductible (see *Nondeductible Contributions*, later).

Examples. Betty, who is single, earns $24,000 in 1997. Her IRA contributions for 1997 are limited to $2,000.

John, a college student working part time, earns $1,500 in 1997. His IRA contributions for 1997 are limited to $1,500, the amount of his compensation.

Spousal IRA limit. Beginning in 1997, if you file a joint return and your taxable compensation is less than that of your spouse, you can contribute for the year to your IRA the smaller of the following amounts:

1) $2,000, or

2) The sum of:

   a) Your taxable compensation for the year, and

   b) The taxable compensation of your spouse for the year, reduced by the amount of his or her IRA deduction for the year.

This means that the total combined contributions that can be made to your IRA and your spouse's IRA can be as much as $4,000 for the year.

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)

Spouse over age 70½. Your spouse cannot make contributions to his or her IRA for the year he or she reaches age 70½ or any later year. However, for any year your spouse has compensation, you can continue to make contributions of up to $2,000 to a spousal IRA. You can contribute to your IRA until the year you reach age 70½.

Contributions not required. You do not have to contribute to your IRA for every tax year, even if you can.

Less than maximum contributions. If your contributions to your IRA for a year were less than the smaller of 100% of your compensation or $2,000, you cannot contribute more in a later year to make up the difference. However, you can apply an 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* in chapter 6.

Example. Paul earns $30,000 in 1997. Although he can contribute up to $2,000 for 1997, he contributes only $1,000. Paul cannot make up the $1,000 ($2,000 − $1,000) difference between his actual contributions for 1997 and his 1997 limit by contributing $1,000 more than the limit in 1998 or any later year.

More than one IRA. If you have more than one IRA, the limit applies to the total contributions made to your IRAs for the year.

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. Both of you cannot participate in the same IRA.

Community property laws – effect on separate computations. Generally when figuring the maximum contribution, 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.

TIP *If one spouse has less compensation than the other and files a joint return with the other spouse, the spouse with less compensation can include, to a limited extent, the compensation of the other spouse when figuring the limit. See* Spousal IRA limit, *earlier.*

Filing status. Generally, your filing status has no effect on the amount of your allowable contribution to an IRA. However, if during 1997 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 *Deductible Contributions*, later. Also, see *Spousal IRA limit,* earlier.

Example. Sam and Helen are married and both are under age 70½. They both work and each has an IRA. Sam earned $1,800 and Helen earned $48,000 in 1997. Even though Sam earned less than $2,000, he can contribute up to $2,000 to his IRA for the year, under the spousal IRA limit rule, if they file a joint return. Helen can contribute up to $2,000 to her IRA. If they file separate returns, the amount Sam can contribute is limited to $1,800.

Inherited IRAs. If you inherit an IRA from your spouse, you can choose to treat it as your own by making contributions to that IRA. See *Inherited IRAs* in chapter 2.

If, however, you inherit an IRA and you are not the decedent's spouse, you cannot contribute to that IRA, because you cannot treat it as your own. See also *Inherited IRA(s)* in chapter 2, under *Rollovers* in chapter 4, and in chapter 5.

Annuity or endowment contracts. If you invest in an annuity or endowment contract under an individual retirement annuity, you cannot contribute more than $2,000 toward its cost for the tax year, including the cost of life insurance coverage. If you contribute more than $2,000, the annuity or endowment contract is disqualified.

Broker's commissions. Broker's commissions that you paid in connection with your IRA ***are subject to*** the contribution limit and ***are not deductible*** as a miscellaneous deduction on Schedule A (Form 1040).

Trustee's fees. Trustee's administrative fees ***are not subject to*** the contribution limit. Trustee's administrative fees that are billed separately and paid by you in connection with your IRA ***are deductible.*** They are deductible (if they are ordinary and necessary) as a miscellaneous deduction on Schedule A (Form 1040). The deduction is subject to the 2% of adjusted gross income limit.

When To Contribute

You can make contributions to your 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 1997 must be made by April 15, 1998.

Designating year for which contribution is made. If you contribute an amount to your IRA between January 1, 1998, and April 15, 1998, you should tell the sponsor which year (1997 or 1998) 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 1998, the year the sponsor received it.

Filing before making your contribution. You can file your return claiming an IRA contribution before you actually make the contribution. You must, however, make the contribution by the due date of your return, ***not*** including extensions.

Deductible Contributions

Generally, you can take a deduction for the contributions that you are allowed to make to your IRA. However, ***if you or your spouse were covered by an employer retirement plan*** at any time during 1997 and you made contributions, your allowable IRA deduction may be less than your allowable contributions. Your deduction may be reduced or eliminated, depending on the amount of your income and your filing status, as discussed later under *Deduction Limits.* These limits do not affect your allowable contributions (see *Nondeductible Contributions,* later).

Who Is Covered by an Employer Plan?

The Form W–2, *Wage and Tax Statement,* you receive from your employer has a box used to indicate whether you were covered for the year. The “Pension Plan” box should have a mark in it if you were covered.

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

Employer Plans

An employer retirement plan is one that an employer sets up for the benefit of its employees. For purposes of the IRA deduction rules, an employer retirement plan is any of the following:

- A qualified pension, profit-sharing, stock bonus, money purchase pension, etc., plan (including Keogh plans),
- A 401(k) plan (generally an arrangement included in a profit-sharing or stock bonus plan that allows you to choose to take part of your compensation from your employer in cash or have your employer pay it into the plan),
- A union plan (a qualified stock bonus, pension, or profit-sharing plan created by a collective bargaining agreement between employee representatives and one or more employers),
- A qualified annuity plan,
- A plan established for its employees by the United States, a state or political subdivision thereof, or by an agency or instrumentality of any of the foregoing

Table 4.1 **Can You Take an IRA Deduction?** This chart sums up whether you can take a full deduction, a partial deduction, or no deduction, as discussed in chapter 3.

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 is not covered by a plan at work) • **Qualifying Widow(er)**	**Married Filing Separately****	**Married Filing Jointly** (and your spouse is covered by a plan at work)	• **Single** • **Head of Household**	• **Married Filing Jointly or Separately** (and spouse is not covered by a plan at work) • **Qualifying Widow(er)**	**Married Filing Separately** (even if your spouse is 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	Full Deduction
$10,000.0	$25,000.01	Full deduction	Full deduction	No deduction	Full deduction			
$25,000.01	$35,000.00	Partial deduction	Full deduction	No deduction	Full deduction			
$35,000.00	$40,000.01	No deduction	Full deduction	No deduction	Full deduction			
$40,000.01	$50,000.00	No deduction	Partial deduction	No deduction	Partial deduction			
$50,000 or over		No deduction	No deduction	No deduction	No deduction			

***Modified AGI** (adjusted gross income) is: (1) for Form 1040A— the amount on line 14 increased by any excluded series EE bond interest shown on Form 8815, *Exclusion of Interest from Series EE U.S. Savings Bonds Issued after 1989,* and certain tax-exempt income amounts (See *Modified adjusted gross income,* later.), or (2) for Form 1040—the amount on line 32, figured without taking into account any IRA deduction or any foreign earned income exclusion and foreign housing exclusion (deduction), any series EE bond interest exclusion from Form 8815, and certain tax-exempt income amounts (See *Modified adjusted gross income,* later.).

**If you did not live with your spouse at any time 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 only if you did not live with your spouse at any time during the year. If you did live with your spouse during the year, you are, for this purpose, treated as though you are covered by a retirement plan at work (therefore, your IRA deduction is determined under the "Married Filing Separately" column in the "If You Are Covered by a Retirement Plan..." section of the chart).

(other than an eligible state deferred compensation plan (section 457(b) plan)),

- A tax-sheltered annuity plan for employees of public schools and certain tax-exempt organizations (403(b) plan),
- A simplified employee pension (SEP) plan,
- A 501(c)(18) trust (a certain type of tax-exempt trust created before June 25, 1959, that is funded only by employee contributions) if you made deductible contributions during the year, or
- A SIMPLE plan.

A ***qualified plan*** is one that meets the requirements of the Internal Revenue Code.

When Are You Covered?

Special rules apply to determine whether you are considered to be covered by (an active participant in) a plan for a tax year. These rules differ depending on whether the plan is a defined contribution or defined benefit plan. They also differ based on your marital status.

Defined contribution plan. Generally, you are considered covered by a defined contribution plan if amounts are contributed or allocated to your account for the plan year that ends within your tax year.

A defined contribution plan is a plan that provides for a separate account for each person covered by the plan. Benefits are based only on amounts contributed to or allocated to each account. Types of defined contribution plans include profit-sharing plans, stock bonus plans, and money purchase pension plans.

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, 1996. The contribution for the plan year ending on June 30, 1997, is not made until February 15, 1998 (when Company A files its corporate income tax return). In this case, Bob is considered covered by the plan for his 1997 tax year.

Defined benefit plan. If you are eligible (meet minimum age and years of service requirements) to participate in your employer's defined benefit plan for the plan year that ends within your tax year, you are considered covered by the plan. This rule applies even if you declined to be covered by the plan, you did not make a required contribution, or you did not perform the minimum service required to accrue a benefit for the year.

A defined benefit plan is any plan that is not a defined contribution plan. Contributions to a defined benefit plan are based on a computation of what contributions are necessary to provide definite benefits to plan participants. Defined benefit plans include pension plans and annuity plans.

Example. John, an employee of B, is eligible for coverage under B's defined benefit plan with a July 1 to June 30 plan year. John leaves B on December 30, 1996. Since John is eligible for coverage under the plan for its year ending June 30, 1997, he is considered covered by the plan for his 1997 tax year.

Nonvested employees. If, for a plan year, an amount is allocated to your plan account in a defined contribution plan, or you accrue a benefit in a defined benefit plan, but you have ***no vested interest*** (legal right) in such account or accrual, you are still covered by such plan as an active participant.

Marital status. Generally, for 1997, you were considered covered by an employer retirement plan if your spouse was covered by one. To determine whether you were considered covered for the tax year because of your spouse's coverage, you had to wait until the last day of the year. This is because your filing status (whether you are considered married or single) for the year depends on your marital status on the last day of the tax year.

TIP *Beginning in 1998, even if your spouse is covered by an employer-sponsored retirement plan, you can deduct your contributions to an IRA if you are not covered by an employer plan. The deduction is limited to $2,000 and it must be reduced if your adjusted gross income on a joint return is more than $150,000, but less than $160,000. Your deduction is eliminated if your income on a joint return is $160,000 or more.*

Spouse died during year. If your spouse died during the year, and you file a joint return as the surviving spouse, coverage by an employer retirement plan for that year is determined as if your spouse were still alive at the end of the year.

Married filing a joint return. Both you and your spouse are considered covered by a plan for the entire year if either of you is covered by a plan for any part of the year and you file a joint return for that year.

Married filing a separate return. If you are not covered by a retirement plan, but your spouse is, you are not considered covered if you and your spouse file separate returns and you did not live together at any time during the year.

Judges. Federal judges are considered covered by an employer retirement plan in figuring the IRA deduction.

When Are You Not Covered?

You are not covered by an employer plan if neither you nor your spouse is covered for any part of the year. You are also not covered for this purpose in the following situations.

Married filing separate return. If you are married filing a separate return and you are not covered, but your spouse is covered by an employer retirement plan, you are not considered covered. This rule applies only if you and your spouse did not live together at any time during the year.

Social security or railroad retirement. Coverage under social security or railroad retirement (Tier I and Tier II) does not count as coverage under an employer retirement plan.

Benefits from previous employer's plan. If you receive retirement benefits from a previous employer's plan and you are not covered (or considered covered because of your spouse) under another employer plan, you are not considered covered by a 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 considered covered by the plan. You are not considered 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 considered covered by the plan. You are not considered 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.

Social Security Recipients

If you received social security benefits, received taxable compensation, contributed to your IRA, and were covered (or considered covered) by an employer retirement plan, complete the worksheets in Appendix B of this publication. Use these worksheets to figure your IRA deduction and the taxable portion, if any, of your social security benefits. Appendix B includes an example with filled-in worksheets to assist you.

Deduction Limits

As discussed under *Deductible Contributions,* earlier, the deduction you can take for contributions made to your IRA depends on whether you or your spouse were covered for any part of the year by an employer retirement plan. But your deduction is also affected by how much income you had and your filing status, as discussed below under *Adjusted Gross Income Limitation*.

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 your total contributions to one or more IRAs of up to $2,000, or 100% of compensation, whichever is less. This limit is reduced by any contributions to a 501(c)(18) plan.

Spousal IRA. Beginning in 1997, in the case of a married couple with unequal compensation who file a joint return, the limit on the deductible contributions to the IRA of the spouse with less compensation is the smaller of:

1) $2,000, or
2) The total compensation of both spouses, reduced by any deduction allowed for contributions to IRAs of the spouse with more compensation.

This limit is reduced by any contributions to a section 501(c)(18) plan.

Reduced or no deduction. For 1997, 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. The amounts vary depending on your filing status.

Adjusted Gross Income Limitation

The effect of income on your deduction, as just described, is sometimes called the adjusted gross income limitation (AGI limit). To compute your reduced IRA deduction, you must first determine your “modified adjusted gross income” and your filing status.

Modified adjusted gross income. Your modified adjusted gross income (modified AGI) is:

1) If you file ***Form 1040*** — the amount on the page 1 “adjusted gross income” line, but modified (changed) by figuring it without taking any:
   a) IRA deduction,
   b) Foreign earned income exclusion,
   c) Foreign housing exclusion or deduction,
   d) Exclusion of series EE bond interest shown on Form 8815, or
   e) Exclusion of employer-paid adoption expenses shown on Form 8839.
2) If you file ***Form 1040A*** — the amount on the page 1 “adjusted gross income” line, but modified by figuring it without any IRA deduction, any exclusion of series EE bond interest shown on Form 8815, or any exclusion of employer-paid adoption expenses shown on Form 8839.

CAUTION *Do not assume that modified AGI is the same as your compensation. You will find that your modified AGI may include income in addition to your taxable compensation such as interest, dividends, and* Income from IRA distributions, *discussed next.*

Income from IRA distributions. If you received IRA distributions in 1997 and your IRA(s) include(s) only deductible contributions, the distributions are fully taxable.

If you made contributions for 1997 that may be nondeductible contributions (discussed later), depending on whether your IRA deduction for that year is reduced (see *Deduction phaseout,* later), the distributions may be partly tax free and partly taxable. In that case, you must figure the taxable part of the IRA distribution before you can figure your modified AGI. To do this, you can use the *Worksheet to Figure Taxable Part of Distribution,* under *Tax Treatment of Distributions* in chapter 5.

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.*

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

Deduction phaseout. Your IRA deduction is reduced or eliminated entirely depending on your filing status and modified AGI as follows:

If your ***filing status*** is:	Your IRA deduction is reduced if your ***modified AGI*** is within the ***phaseout range*** of:	Your deduction is eliminated if your ***modified AGI*** is:
Single, or Head of household	$25,000.01 – $35,000	$35,000 or more
Married—joint return, or Qualifying widow(er)	$40,000.01 – $50,000	$50,000 or more
Married—separate return	$0.01 – $10,000	$10,000 or more

TIP *For 1998, if you are covered by a retirement plan at work, your IRA deduction will not be reduced (phased out) unless your modified adjusted gross income (AGI) is between:*

- *$30,000 (a $5,000 increase) and $40,000 for a single individual (or head of household),*
- *$50,000 (a $10,000 increase) and $60,000 for a married couple (or a qualifying widow(er)) filing a joint return, or*
- *$–0– (no increase) and $10,000 for a married individual filing a separate return.*

How to Figure Your Reduced IRA Deduction

If you are covered or considered covered by an employer retirement plan and your modified AGI is within the phaseout range for your filing status (see the table under *Deduction phaseout*), your IRA deduction must be reduced. You can figure your reduced IRA deduction ***for either*** Form 1040 or Form 1040A by using the following worksheet. Also, the instructions for these tax forms include similar worksheets.

Note. If you were married and both you and your spouse worked and you both contributed to IRAs, figure the deduction for each of you separately.

If you were divorced or legally separated (and did not remarry) before the end of the year, you cannot deduct any contributions you made to your spouse's IRA. After a divorce or legal separation, you can deduct only the contributions you made to your own IRA and your deductions are subject to the adjusted gross income limitation under the rules for single individuals.

Deductible (and nondeductible) IRA contributions for an IRA (including a spousal IRA). Complete lines 1 through 8 to figure your deductible and nondeductible IRA contributions for the year.

Worksheet for Reduced IRA Deduction

(Use only if you are covered, or considered covered, by an employer plan and your modified AGI is within the phaseout range that applies.)

If your ***filing status*** is:	And your ***modified AGI*** is over:	***Enter*** on line 1 below:
Single or Head of household	$25,000	$35,000
Married–joint return or Qualifying widow(er)	$40,000	$50,000
Married–separate return	$ –0–	$10,000

1. Enter the amount from above that applies .... ________
2. Enter your ***modified AGI*** (combined, 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,* later.

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 the lower income spouse and filing a joint return, include your spouse's compensation reduced by his or her IRA deduction for this year. If you file Form 1040, do not reduce your compensation by any losses from self-employment.) ________
6. Enter contributions you made, or plan to make, to your IRA for 1997, but **do not** enter more than $2,000. (If contributions are more than $2,000, see *Excess Contributions* in chapter 6.) .... ________
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. (See *Nondeductible Contributions,* later.) .... ________

Reporting Deductible Contributions

You do not have to itemize deductions to claim your deduction for IRA contributions. If you file ***Form 1040,*** deduct your IRA contributions for 1997 on line 23 and, if you file a joint return, deduct your spouse's IRA contributions on line 23.

If you file ***Form 1040A,*** deduct your contributions on line 15 and, if you file a joint return, deduct your spouse's IRA contributions on line 15. ***Form 1040EZ*** does not provide for IRA deductions.

When you must use Form 1040. You must use Form 1040 instead of Form 1040A if you owe tax on any early distributions from your IRA, any excess contributions made to your IRA, or any excess accumulations in your IRA account. See chapter 6, *What Acts Result in Penalties?*

Note. If you made contributions to a section 501(c)(18) pension plan (discussed earlier under *Contribution Limits*), include your deduction in the total on line 31, Form 1040. Enter the amount and “501(c)(18)” on the dotted line next to line 31. See Publication 575 for information on deduction limits that apply to contributions to these plans.

Self-employed. If you are self-employed (a sole proprietor or partner) and have a SEP–IRA or a SIMPLE IRA, take your deduction for allowable plan contributions on line 28, Form 1040.

Withholding allowances. To figure the number of additional withholding allowances on your Form W–4, *Employee's Withholding Allowance Certificate,* you can take into account your estimated deductible IRA contributions. For this purpose, however, do not take into account any of your employer's regular contributions to your SEP–IRA or SIMPLE IRA. They generally are not included in your income and you cannot deduct them. SEP-IRAs and SIMPLE IRAs are discussed later. For more information on withholding, see Publication 505, *Tax Withholding and Estimated Tax.*

Form 5498. You should receive by June 1, 1998, Form 5498 or a similar statement from plan sponsors, showing all the contributions made to your IRA for 1997.

Nondeductible Contributions

Although your deduction for IRA contributions may be reduced or eliminated because of the adjusted gross income limitation (see *Deductible Contributions,* earlier), you can still make contributions to your IRA of up to $2,000 or 100% of compensation, whichever is less. For a spousal IRA, see *Spousal IRA limit,* earlier. The difference between your total permitted contributions and your total deductible contributions, if any, is your nondeductible contribution.

Form 1040

Adjusted Gross Income	23	IRA deduction (see page 16)	23		
	24	Medical savings account deduction. Attach Form 8853	24		
If line 32 is under $29,290 (under $9,770 if a child did not live with you), see EIC inst. on page 21.	25	Moving expenses. Attach Form 3903 or 3903-F	25		
	26	One-half of self-employment tax. Attach Schedule SE	26		
	27	Self-employed health insurance deduction (see page 17)	27		
	28	Keogh and self-employed SEP and SIMPLE plans	28		
	29	Penalty on early withdrawal of savings	29		
	30a	Alimony paid **b** Recipient's SSN ▶	30a		
	31	Add lines 23 through 30a		31	
	32	Subtract line 31 from line 22. This is your **adjusted gross income** ▶		32	

For Privacy Act and Paperwork Reduction Act Notice, see page 38. Cat. No. 11320B Form **1040** (1997)

Form 1040A

14	Add lines 7 through 13b (far right column). This is your **total income.** ▶	14	
15	IRA deduction (see page 21).	15	
16	Subtract line 15 from line 14. This is your **adjusted gross income.** If under $29,290 (under $9,770 if a child did not live with you), see the EIC instructions on page 27. ▶	16	

Attach Copy B of W-2 and 1099-R here. Cat. No. 11327A **1997 Form 1040A**

Example. Sonny Jones is single. In 1997, he is covered by a retirement plan at work. His salary is $52,312. His modified adjusted gross income (MAGI) is $55,000. Sonny makes a $2,000 IRA contribution for that year. Because he is covered by a retirement plan and his MAGI is above $35,000, he cannot deduct his $2,000 IRA contribution. However, he can choose to either:

1) Designate this contribution as a nondeductible contribution by reporting it on his tax return, as explained later under *Reporting Nondeductible Contributions*, or

2) Withdraw the contribution as explained later under *Tax-Free Withdrawal of Contributions.*

As long as your 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. See chapter 5, *When Can I Withdraw or Use Assets From an IRA?*

Cost basis. You will have a cost basis in your IRA if you make nondeductible contributions. Your basis is the sum of the nondeductible amounts you have contributed to your IRA less any distributions of those amounts. When you withdraw (or receive distributions of) these amounts, as discussed later in chapter 5, you can do so tax free.

CAUTION *Generally, you cannot withdraw only the amounts representing your basis. If you have basis in any of your IRAs, your withdrawals from any of your IRAs will generally include both taxable and nontaxable amounts. See chapter 5 for more information.*

Reporting Nondeductible Contributions

You must report nondeductible contributions, but 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.

Designating nondeductible contributions. To designate contributions as nondeductible, you must file Form 8606, *Nondeductible IRAs (Contributions, Distributions, and Basis)*. (See the filled-in Forms 8606 in Appendix D.) You must file Form 8606 to report nondeductible contributions even if you do not have to file a tax return for the year.

Form 8606. You must file Form 8606 if either of the following applies.

- You made nondeductible contributions to your IRA for 1997, or
- You received IRA distributions in 1997 and you have ever made nondeductible contributions to any of your IRAs.

Failure to report nondeductible contributions. If you do not report nondeductible contributions, all of your IRA contributions will be treated as deductible. When you make withdrawals from your IRA, the amounts you withdraw will be taxed unless you can show, with satisfactory evidence, that nondeductible contributions were made.

There is a recordkeeping worksheet, Appendix A, *Summary Record of IRA(s) for 1997,* that you can use to keep records of your deductible and nondeductible IRA contributions.

Penalty for overstatement. If you overstate the amount of your 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.

Tax-Free Withdrawal of Contributions

If you made IRA contributions for 1997, 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 both of the following apply.

- You did not take a deduction for the contributions you withdraw.
- 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.

IRA trustees must include these amounts in box 1 and, if applicable, in box 2a of Form 1099-R. You must report these amounts on line 15a, Form 1040. If there is an amount in box 2a of Form 1099-R, include it on line 15b of Form 1040.

Premature withdrawals tax. The 10% additional tax on withdrawals made before you reach age 59½ does not apply to these withdrawals of your contributions. (See *Exceptions* in chapter 5.) However, your early withdrawal of the interest or other income must be reported on Form 5329 and may be subject to this tax. (See *Excess Contributions* and *Premature Distributions (Early Withdrawals)* in chapter 6.)

Excess contributions tax. If any part of these contributions is an excess contribution, it will be subject to a 6% excise tax. You will not have to pay the 6% tax if any 1996 excess contribution was withdrawn by April 15, 1997 (plus extensions), and if any 1997 excess contribution is withdrawn by April 15, 1998 (plus extensions). See *Excess Contributions* in chapter 6.

Comprehensive Examples — Nondeductible and Deductible Contributions

The following examples illustrate the use of the IRA deduction worksheet shown earlier under *How to Figure Your Reduced IRA Deduction*.

Example 1. For 1997, 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 $6,555. They each have an IRA and their combined modified AGI is $46,555. Since their modified AGI is between $40,000 and $50,000 and Tom is covered by an employer plan, each of them is subject to the deduction limits. See *Deduction Limits,* earlier.

For 1997, Tom contributed $2,000 to his IRA and Betty contributed $500 to hers. Even though they file a joint return, they must use separate worksheets to figure the reduced IRA deduction for each of them.

Tom can take a deduction of only $690. See the worksheet below. Even though he contributed the maximum ($2,000), $1,310 ($2,000 minus $690) of his contributions must be treated 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 15, 1998. He decides to treat the $690 as deductible contributions and leave the $1,310 of nondeductible contributions in his IRA.

Betty can treat all or part of her contributions as either deductible or nondeductible. This is because her $500 contribution for 1997 is less than the $690 deduction limit for her IRA contributions that year. See line 4 of her worksheet, later. She decides to treat her $500 IRA contributions as deductible.

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 are covered, or considered covered, by an employer plan and your modified AGI is within the phaseout range that applies.*)

If your ***filing status*** is:	And your ***modified AGI*** is over:	***Enter*** on line 1 below:
Single, or Head of household	$25,000	$35,000
Married–joint return, or Qualifying widow(er)	$40,000	$50,000
Married–separate return	$ –0–	$10,000

1. Enter the amount from above that applies $50,000
2. Enter your ***modified AGI*** (combined, if married filing jointly) 46,555

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,* earlier.

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.) 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 the lower income spouse and filing a joint return, include your spouse's compensation reduced by his or her IRA deduction for this year. If you file Form 1040, do not reduce your compensation by any losses from self-employment.) 40,000
6. Enter contributions you made, or plan to make, to your IRA for 1997, but **do not** enter more than $2,000. (If contributions are more than $2,000, see *Excess Contributions* in chapter 6.) 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:

Worksheet for Reduced IRA Deduction

(*Use only if you are covered, or considered covered, by an employer plan and your modified AGI is within the phaseout range that applies.*)

If your ***filing status*** is:	And your ***modified AGI*** is over:	***Enter*** on line 1 below:
Single, or Head of household	$25,000	$35,000
Married–joint return, or Qualifying widow(er)	$40,000	$50,000
Married–separate return	$ –0–	$10,000

1. Enter the amount from above that applies $50,000
2. Enter your ***modified AGI*** (combined, if married filing jointly) 46,555

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,* earlier.

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.) 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 the lower income spouse and filing a joint return, include your spouse's compensation reduced by his or her IRA deduction for this year. If you file Form 1040, do not reduce your compensation by any losses from self-employment.) 45,865*
6. Enter contributions you made, or plan to make, to your IRA for 1997, but **do not** enter more than $2,000. (If contributions are more than $2,000, see *Excess Contributions* in chapter 6.) 500
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.) 500
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. 0

* $6,555 plus $40,000 minus $690 = $45,865.

The IRA deductions of $690 and $500 on the joint return for Tom and Betty total $1,190. Betty's unused IRA deduction limit of $190 ($690 minus $500) cannot be transferred to Tom to increase his deduction.

Example 2. Assume the same facts as in Example 1, except that Tom contributed $2,000 to an IRA for Betty (a spousal IRA) because Betty had no compensation for the year and did not contribute to an IRA. Their modified AGI remains at $46,555. Betty figures her IRA deduction as follows:

Worksheet for Reduced IRA Deduction

(*Use only if you are covered, or considered covered, by an employer plan and your modified AGI is within the phaseout range that applies.*)

If your ***filing status*** is:	And your ***modified AGI*** is over:	***Enter*** on line 1 below:
Single, or Head of household	$25,000	$35,000
Married–joint return, or Qualifying widow(er)	$40,000	$50,000
Married–separate return	$ –0–	$10,000

1. Enter the amount from above that applies $50,000
2. Enter your ***modified AGI*** (combined, if married filing jointly) 46,555

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,* earlier.

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.) 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 the lower income spouse and filing a joint return, include your spouse's compensation reduced by his or her IRA deduction for this year. If you file Form 1040, do not reduce your compensation by any losses from self-employment.) 39,310*
6. Enter contributions you made, or plan to make, to your IRA for 1997, but **do not** enter more than $2,000. (If contributions are more than $2,000, see *Excess Contributions* in chapter 6.) 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

* $0 plus $40,000 minus $690 = $39,310.

4.

Can I Transfer Retirement Plan Assets?

IRA rules permit you to transfer, tax free, assets (money or property) from other retirement programs (including IRAs) to an IRA. The rules permit the following kinds of transfers:

- Transfers from one trustee to another,
- Rollovers, and
- Transfers incident to a divorce.

This chapter discusses all three kinds of transfers.

Transfer From One IRA Trustee to Another

A transfer of funds in your 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 one-year waiting period that is required between rollovers, discussed later under *Rollover From One IRA Into Another.*

For information about direct transfers from retirement programs other than IRAs, see *Direct Rollover Option,* later.

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 amount you roll over tax free, however, is generally taxable later when the new plan pays that amount to you or your beneficiary.

Kinds of rollovers to an IRA. There are two kinds of rollover contributions to an IRA. In one, you put amounts you receive from one IRA into another. In the other, you put amounts you receive from an employer's qualified retirement plan for its employees (see *Employer Plans* under *Who is Covered by an Employer Plan?* in chapter 3) into an 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 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 must be treated 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 premature distributions as discussed in chapter 6.

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 in chapter 6.

Extension of Rollover Period

If an amount distributed to you from an IRA or a qualified employer retirement plan becomes a ***frozen deposit*** in a financial institution during the 60–day period allowed for a rollover, a special rule extends the rollover period.

The period during which the amount is a frozen deposit is not counted in the 60–day period, nor can the 60–day period end earlier than 10 days after the deposit is no longer frozen. To qualify under this rule, the deposit must be frozen on at least one day during the 60–day rollover period.

A ***frozen deposit*** is any deposit that cannot be withdrawn 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 IRA if you reinvest them within 60 days in another IRA. Because this is a rollover, you cannot deduct the amount that you reinvest in the new IRA.

Waiting period between rollovers. You can take (receive) a distribution from an IRA and make a rollover contribution (of all or part of the amount received) to another IRA only once in any one-year period. The one-year period begins on the date you receive the IRA distribution, not on the date you roll it over into another IRA.

This rule applies separately to each IRA you own. For example, if you have two IRAs, IRA–1 and IRA–2, and you roll over assets of IRA–1 into a new IRA–3, you may also make a rollover from IRA–2 into IRA–3, or into any other IRA, within one 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 one year. However, you cannot, within the one-year period, again roll over the assets you rolled over into IRA–3 into any other IRA.

If any amount distributed from an IRA was rolled over tax free, later distributions from that IRA within a one-year period will not qualify as rollovers. They are taxable and may be subject to the 10% tax on premature distributions.

Exception. An exception to the one-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 new IRA the same property you received from your old IRA.

Partial rollovers. If you withdraw assets from an IRA, you can roll over part of the withdrawal tax free into another 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 in chapter 6.

Required distributions. Amounts that must be distributed during a particular year under the required distribution rules (discussed in chapter 5) ***are not eligible for rollover*** treatment.

Inherited IRAs

If you inherit an IRA from your spouse, you generally can roll it over into an IRA established for you, or you can choose to make it your own as discussed in chapter 2 under *Inherited IRAs.* Also see *Distributions Received by a Surviving Spouse* later in this chapter.

Not inherited from spouse. If you inherited an 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* in chapter 5.

Reporting Rollovers From IRAs

Report any rollover from one IRA to another IRA on lines 15a and 15b, Form 1040, or lines 10a and 10b, Form 1040A. Enter the total amount of the distribution on line 15a, Form 1040, or line 10a, Form 1040A. If the total amount on line 15a, Form 1040, or line 10a, Form 1040A was rolled over, enter zero online 15b, Form 1040, or line 10b, Form 1040A. Otherwise, enter the taxable portion of the part that was not rolled over on line 15b, Form 1040, or line 10b, Form 1040A. See *Distributions Fully or Partly Taxable* in chapter 5.

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 an 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 an employee's credit in a qualified retirement plan ***except:***

1) A required minimum distribution, or

2) 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.

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 an IRA (or another qualified plan as discussed in Publication 575). However, you can avoid withholding by choosing the direct rollover option, discussed later.

Exceptions. Withholding from an eligible rollover distribution paid to you is not required 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. If you receive a distribution that is not an eligible rollover distribution, the 20% withholding requirement does not apply. 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 an IRA (or to an eligible retirement plan as discussed in Publication 575). Under this option, all or part of the distribution can be paid directly to an IRA (or another eligible retirement plan that accepts rollovers). This option is not required for distributions that are expected to total less than $200 for the year.

No tax withheld. 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 IRA (or other plan). If any part is paid to you, the payer must withhold 20% of that part's taxable amount. Since most distributions are fully taxable, payers will generally withhold 20% of the entire amount designated for distribution to you.

Other Rollover Limits and Special Rules

Maximum rollover. The most you can roll over is the taxable part of any eligible rollover distribution from your employer's qualified plan. See *Eligible rollover distribution,* 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*** as defined below), which are treated like employer contributions. If you do, you must treat them as regular contributions and you may have to pay an excess contributions tax (discussed in chapter 6) on all or part of them.

DECs. *DECs* 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. 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. Your IRA qualifies as a conduit IRA if it serves as a holding account or conduit for only those assets. The conduit IRA must be made up of only those assets received from the first employer's plan and gains and earnings on those assets. The 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.

Property and cash received in a distribution. If you receive property and cash in an eligible rollover distribution from your employer's plan, 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 an 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 from a qualified employer retirement plan, you can sell all or part of the property and roll over the amount you receive into an 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 an 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 an 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 4, John 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 26, he sold the stock for $60,000. On October 3, he rolled over $110,000 in cash ($50,000 from the original distribution and $60,000 from the sale of stock). John 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 an 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 an IRA.

Distributions Received by a Surviving Spouse

A surviving spouse can roll over into an IRA part or all of any eligible rollover distribution (defined earlier) received from an employer's qualified plan because of the death of the deceased spouse.

No rollover into another employer qualified plan. A surviving spouse who receives an eligible rollover distribution attributable to his or her deceased spouse from an employer's qualified plan or tax-sheltered annuity can roll over all or any part of it (or all or any part of a distribution of deductible employee contributions) into an IRA. He or she cannot roll over a distribution into another qualified employer plan or annuity.

Distributions Under Divorce or Similar Proceedings (Alternate Payees)

If you (as a spouse or former spouse of the employee) receive from a qualified employer plan a distribution that results from divorce or similar proceedings, you may be able to roll over all or part of it into an 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 an 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. If you roll over only part of an eligible rollover distribution, the amount you keep is taxable in the year you receive it. If you roll over none of it, the special rules for lump-sum distributions (5– or 10–year tax option or 20% capital gain treatment) may apply. See Publication 575. The 10% additional tax on premature distributions, discussed in chapter 6, 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, you can roll over all or part of the distribution (including a lump-sum distribution) into an IRA (or another eligible retirement plan as discussed in Publication 575).

Lump-sum distributions. A distribution to you of your complete share from your Keogh plan is not a lump-sum distribution if you are self-employed, under age 59½, and are not disabled. Consequently, such distributions do not qualify for the special tax treatment available to lump-sum distributions. For information on lump-sum distributions, get 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, it can be rolled over into an IRA. It cannot be rolled over into another eligible retirement plan unless that plan is a tax-sheltered annuity plan.

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 IRA contains only assets (including earnings and gains) that were rolled over from a tax-sheltered annuity, you may 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 an IRA.

You can redeem these bonds even if you have not reached age 59½. In addition, you can roll over the proceeds, tax free, into a qualified employer plan. However, when you receive a distribution at a later time, it will not be eligible for special 5– or 10–year averaging or 20% capital gain treatment.

Reporting Rollovers From Employer Plans

To report a rollover from an employer retirement plan to an IRA, use lines 16a and 16b, Form 1040, or lines 11a and 11b, Form 1040A. Do not use lines 15a or 15b, Form 1040, or lines 10a or 10b, Form 1040A.

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 a written explanation to you. It must tell you about all of the following:

- Your right to have the distribution paid tax free directly to an IRA or another eligible retirement plan,
- The requirement to withhold tax from the distribution if it is not paid directly to an IRA or another eligible retirement plan,
- The nontaxability of any part of the distribution that you roll over to an IRA or another eligible retirement plan within 60 days after you receive the distribution, and
- Other qualified employer plan rules, if they apply, including those for lump-sum distributions, alternate payees, and cash or deferred arrangements.

Reasonable period of time. The plan administrator must provide you with a 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 the following two requirements are met:

1) You must have the opportunity to consider whether or not you want to make a direct rollover for at least 30 days after the explanation is provided, and
2) The information you receive must clearly state that you have the right to have 30 days to make a decision.

Contact the plan administrator if you have any questions regarding this information.

Choosing the right option. As explained earlier, you can have all or part of the distribution from your employer's plan made either as a *direct rollover* to an IRA or another eligible retirement plan, or as a *payment to you.*

Also, you generally can leave all or part of the distribution in the plan. If you do not leave the distribution in your employer's plan, the following comparison chart may help you decide which distribution option to choose.

Comparison chart. To help ensure that you choose the distribution option that is best for you, carefully compare the following tax effects of each:

Direct Rollover	Payment to You
No withholding.	Payer must withhold income tax of 20% on the taxable part (even if you roll it over to an IRA or other plan).
No 10% additional tax. (See *Premature 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 or other plan.	Any taxable part (including an amount equal to the tax withheld) not rolled over is income.

TIP *If you decide to roll over tax free any part of a distribution, the direct rollover option, as indicated above, will generally be to your advantage 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. See Lump-sum distributions*, earlier. In that case, you may want to get 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 tax free 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 the distribution at all.

Transfers Incident to Divorce

If an interest in an 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 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 an IRA to your spouse or former spouse, there are two commonly used methods that you can use to make the transfer. The methods (explained below) 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 an 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, whichever applies.

Direct transfer. Under this method, you direct the trustee of the IRA to transfer the affected assets directly to the trustee of a new or existing IRA set up in the name of your spouse or former spouse, whichever applies. Or, 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 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.

5.

When Can I Withdraw or Use Assets From an IRA?

Because an IRA is a tax-favored means of saving for your retirement, there are rules limiting the withdrawal and use of your IRA assets. Violation of the rules generally results in additional taxes in the year of violation. See chapter 6.

Note. Beginning in 1997, these rules also apply to SIMPLE retirement accounts.

Distributions (withdrawals) — general rule. If during a year you receive distributions from an IRA, you ***must generally include them in your gross income*** for the year. A properly handled rollover, as discussed in chapter 4, is an exception to this rule. This chapter discusses this and other rules affecting distributions from your IRA.

Failed financial institutions. The 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 one-year waiting period rule for rollovers of certain distributions from failed financial institutions, see *Exception* under *Rollover From One IRA Into Another* in chapter 4.

Age 59½ Rule

Generally, until you reach age 59½, you cannot withdraw assets (money or other property) from your IRA without having to pay a 10% additional tax (that is, a 10% tax on the taxable distribution in addition to the regular income tax). However, there are a number of exceptions to this rule as discussed below under *Exceptions.* Also see *Premature Distributions (Early Withdrawals)* in chapter 6.

A 25% additional tax, rather than 10%, applies to early withdrawals of funds from a SIMPLE plan that are made within 2 years of beginning participation.

Note: If you receive a distribution from an IRA that includes a return of nondeductible contributions, the 10% additional tax does not apply to the portion of the distribution that is considered to be nontaxable. See *Figuring the Nontaxable and Taxable Amounts* under *Tax Treatment of Distributions,* later in this chapter.

After age 59½ and before age 70½. You can withdraw assets from your IRA after you reach age 59½ without penalty. Even though you can, you do not have to withdraw assets from your IRA until you reach age 70½. See *Required Distributions* later in this chapter.

Exceptions

The exceptions to the age 59½ rule for distributions are in part designed to provide relief from hardship situations such as:

- Significant unreimbursed medical expenses,
- Paying medical insurance premiums after losing your job,
- Disability, and
- Death.

But there is also an exception for distributions that are a part of a series of substantially equal payments as discussed later under *Annuity exception.*

Note: Distributions that are rolled over, as discussed in chapter 4, are not subject to regular income tax or the 10% additional tax.

Unreimbursed medical expenses exception. You do not have to pay the 10% tax on amounts you withdraw after 1996 that are more than:

1) The amount you paid for unreimbursed medical expenses during the year of the withdrawal, minus

2) 7.5% of your adjusted gross income for the year of the withdrawal.

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 exception. You may not have to pay the 10% tax on amounts you withdraw 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 make the withdrawals during either the year you received the unemployment compensation or the following year.

4) You make the withdrawals no later than 60 days after you have been reemployed.

Disability exception. If you become disabled before you reach age 59½, any amounts you withdraw from your 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.

Death exception. If you die before reaching age 59½, the assets in your IRA can be distributed to your beneficiary or to your estate without either having to pay the 10% additional tax.

However, if you inherit an IRA from your deceased spouse and elect to treat it as your own (as discussed under *Inherited IRAs* in chapter 2), any distribution you later receive before you reach age 59½ may be subject to the 10% additional tax.

Annuity exception. You can receive distributions from your IRA that are part of a series of substantially equal payments over your life (or your life expectancy), or over the lives of you and your beneficiary (or your joint life expectancies), 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." Unlike for minimum distribution purposes, this method, when used for this purpose, results in the exact amount required, 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 read 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 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 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.

TIP *Beginning in 1998, there will be exceptions for distributions to pay qualified higher education expenses and for qualified first-time homebuyer distributions, as discussed next.*

Higher education expenses exception. Beginning in 1998, you can take distributions from your IRA to pay qualified higher education expenses without having to pay the 10% additional tax on early withdrawals.

To qualify for this higher education expenses exception, a distribution must be used to pay qualified higher education expenses for:

1) You,
2) Your spouse,
3) Your or your spouse's children, or
4) Your or your spouse's grandchildren.

Qualified higher education expenses means tuition, fees, books, supplies and equipment required for the enrollment or attendance of any of the individuals listed earlier at an eligible education institution. In addition, if the individual is at least a half-time student, room and board are qualified higher education expenses.

First home exception. Beginning in 1998, you can take qualified first-time homebuyer distributions totalling $10,000 from your IRA without having to pay the 10% additional tax on early withdrawals.

To qualify under this first-time homebuyer exception, a distribution must be used to buy, build, or rebuild a first home that is the principal residence of:

1) Yourself,
2) Your spouse,
3) Your child, or your spouse's child,
4) Your grandchild, or your spouse's grandchild,
5) Your parent or other ancestor, or
6) Your spouse's parent or other ancestor.

Timely contribution withdrawal. If you make a contribution to your IRA for a year, take no deduction for it, and withdraw it and any earnings on it before the due date (including extensions) of your income tax return for that year, as discussed earlier under *Tax-Free Withdrawal of Contributions* in chapter 3, the withdrawal of the contribution is ***not a taxable distribution.***

However, any interest or other income earned on the contribution, which also must be withdrawn, is treated as income in the year the contribution was made. This withdrawn interest or other income must be reported on Form 5329, and may be subject to the 10% additional tax on early withdrawals discussed in chapter 6.

Required Distributions

You cannot keep funds in an IRA indefinitely. Eventually you ***must*** withdraw them. If you do not, or if you withdraw an amount that is less than the required minimum distribution for a year, you may have to pay a 50% excise tax on the amount not withdrawn as required. See *Excess Accumulations,* in chapter 6. The requirements for withdrawing IRA funds differ, depending on whether you are the IRA owner or the beneficiary of a decedent's IRA.

IRA Owners

If you are an IRA owner, you must choose to withdraw the balance in your IRA in one of the following two ways:

- By withdrawing the *entire balance* in your IRA by the ***required beginning date*** (defined later), or
- By starting to withdraw ***periodic distributions*** of the balance in your IRA by the required beginning date.

Periodic distributions. If you do not withdraw the entire balance in your IRA by the required beginning date, you must start to withdraw 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.

Designated beneficiary. A designated beneficiary, for these purposes, is any *individual* you name to receive your 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 your withdrawals must be made. 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 (defined later). 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 make withdrawals 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 make withdrawals, except as provided under *Refiguring life expectancy elected,* later.

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 make withdrawals for subsequent years using only your remaining life expectancy.

Required beginning date (RBD) — Age 70½ rule. You must receive the entire balance in your IRA or start receiving periodic distributions from your IRA by April 1 of the year following the year in which you reach age 70½.

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 70½ (your 70½ year). If you did not receive that minimum amount in your 70½ year, then you must receive distributions for your 70½ year that reach the minimum amount by April 1 of the next year. See *Minimum Distributions,* later.

Distributions after the RBD. The required minimum distribution for any year after your 70½ year must be made by December 31 of that later year.

Example. You reach age 70½ on August 20, 1997. For 1997 (your 70½ year), you must receive the required minimum distribution from your IRA by April 1, 1998. You must receive the required minimum distribution for 1998 (the first year after your 70½ year) by December 31, 1998.

Beneficiaries

If you are the beneficiary of a decedent's IRA, the requirements you must satisfy for withdrawing funds from that IRA depend on whether distributions that satisfy the minimum distributions requirement have begun.

Determining when distributions have begun. For purposes of determining the requirements for withdrawals from a decedent's IRA, distributions to the deceased owner generally are considered as having begun on the RBD, even if payments actually began before that date. This means that if the IRA owner dies before the RBD, 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 RBD and began over a permitted period, distributions are considered to have begun before the owner's death, even if the owner died before the RBD. For this exception to apply, the annuity must have provided for periodic distributions at intervals of no more than one 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 at the IRA owner's death 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 *Inherited IRAs* in chapter 2. In that case, the surviving spouse can designate beneficiaries and should follow the required distribution rules for IRA owners in the preceding discussion.

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 either:

Rule 1. By December 31 of the fifth year following the year of the owner's death, or

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 1 (Single Life Expectancy)* in Appendix E.

The IRA terms 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 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:

- December 31 of the year the IRA owner would have reached age 70½, or
- December 31 of the year following the year of the owner's death.

Spouse dies before receiving distribution. A special rule applies if the spouse dies before the date distributions to the spouse must begin. In this case, distributions may be made to the spouse's beneficiary as if the spouse's beneficiary were the IRA owner's spouse and the owner died on the spouse's date of death.

Spouse remarried. However, if the 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 an individual retirement ***account,*** you must figure the minimum amount required to be distributed each year. See *Figuring the Minimum Distribution,* below.

If your 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*** as of the close of business on December 31 of the preceding year by the ***applicable life expectancy.*** Or, if because you have a nonspouse beneficiary who is more than 10 years younger than you the distribution must satisfy the minimum distribution incidental benefit (MDIB) requirement, discussed later, compare the ***applicable divisor*** (see *Table for Determining Applicable Divisor for MDIB** in Appendix E) and the applicable life expectancy and use the lower number.

IRA account balance. The IRA account balance is the amount in the IRA at the end of the immediately preceding year with the following adjustments.

1) Contributions — It is increased by any contributions for the immediately preceding year that were made in the year for which the minimum distribution is being figured.
2) Distributions — For purposes of figuring the minimum distribution for the second distribution year only, it 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 following 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, 1926, reached 70½ in 1997. His wife (his beneficiary) turned 56 in September 1997. He must begin receiving distributions by April 1, 1998. Joe's IRA account balance as of December 31, 1996, is $29,000. Based on their ages at year end (December 31, 1997), 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 1997, 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, 1998.

Joe's IRA account balance as of December 31, 1997, is $29,725.

To figure the minimum amount that must be distributed for 1998, the IRA account balance (as of December 31, 1997) of $29,725 is reduced by the $1,000 minimum required distribution for 1997 that was made on April 1, 1998. The account balance for determining the required distribution for 1998 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? To determine your annual minimum distribution, use the applicable life expectancy in *Table I (Single Life Expectancy)* if the periodic payments are for your life only. Use the applicable life expectancy in *Table II (Joint Life and Last Survivor Expectancy)* if the payments are for the lives of you and your designated beneficiary.

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 (RBD) (see *Periodic distributions* under *IRA Owners,* earlier), determine life expectancies using the ages of the owner and the designated beneficiary (assuming you are using Table II) as of their birthdays in the year the owner becomes 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.

Life expectancy for subsequent year distributions. Unless you choose to ***refigure*** your (or your spouse's) life expectancy each year (as discussed next), it must be reduced by one for each year that has passed since the date the life expectancy was initially determined. Use of this rule is said to result in distributions under the ***term certain*** method.

Designated beneficiary dies. If you use the term certain method and your designated beneficiary dies, you do not have to refigure life expectancy by substituting a different life expectancy for that of the deceased beneficiary. Whether or not there is another beneficiary, continue to use the joint life expectancy that you were using before your designated beneficiary died.

Election to refigure or not to refigure life expectancy. Your IRA terms may permit you and your spouse to elect whether 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 (RBD) — Age 70½ rule,* earlier.

Refiguring life expectancy elected. If you own an 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.

See *Further information,* later, for relevant regulation citations.

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 (see Example 3, later), except that neither Table II nor the MDIB requirement (discussed next) applies after your death. Using Example 3, steps 1 through 4, and assuming Joe died in 1997, 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.

Minimum Distribution Incidental Benefit (MDIB) Requirement

Distributions from an IRA during the owner's lifetime must satisfy the MDIB requirement. This is a requirement that must be met 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).

Only beneficiary is spouse. If your spouse is your only beneficiary, you will satisfy the MDIB requirement if you satisfy the general minimum distribution requirements discussed earlier.

Nonspouse beneficiary more than 10 years younger. If someone other than your spouse is your beneficiary and is more than 10 years younger than you, or if you have one or more beneficiaries in addition to your spouse and the youngest is more than 10 years younger than you, there are additional steps to figure your required minimum distribution that satisfies the MDIB requirement. If you have two or more beneficiaries, including your spouse, the rule for spouses in the preceding paragraph applies only if his or her portion of your benefit is in a separate account.

To figure a minimum distribution that meets the MDIB requirements, you must complete the following additional steps:

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*** (See *Figuring the Minimum Distribution,* earlier.) for the year, and determine which number is smaller.

3) To figure your required minimum distribution, ***divide the IRA account balance*** (see *Figuring the Minimum Distribution,* earlier) as of the close of business of the December 31 of the preceding year ***by the smaller number*** (your applicable divisor or your applicable life expectancy).

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* (see 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 1997 is $1,146 ($29,000 divided by 25.3) instead of the $1,000 computed in Example 1. Joe's adjusted December 31, 1997, account balance to be used for determining the required distribution for 1998 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 1998. Joe's minimum distribution for 1998 is figured by dividing his adjusted account balance as of December 31, 1997 ($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 1997	27.7
2) Number of years that have passed since 1997 (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 1998	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 1998 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,* earlier under *Refiguring life expectancy elected.*

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 read 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 equal the minimum required amount.

More than one IRA. If you have more than one 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. Mary, born August 1, 1926, became 70½ on February 1, 1997. She has two IRAs. She must begin receiving her IRA distributions by April 1, 1998. On December 31, 1996, Mary's account balance from IRA A was $10,000; her account balance from IRA B was $20,000. Mary's brother, age 64 as of his birthday in 1997, is the beneficiary of IRA A. Her husband, age 78 as of his birthday in 1997, is the beneficiary of IRA B.

Mary's required minimum distribution from IRA A is $427 ($10,000 divided by 23.4, the joint life and last survivor expectancy of Mary 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 Mary and her husband per Table II in Appendix E). The required distribution that must be withdrawn by Mary from either one, or both, of her IRA accounts by April 1, 1998, is $1,570.

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. 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.

Annuity distributions from an insurance company. Special rules apply if you receive distributions from your IRA as an annuity purchased from an insurance company. See *Further information,* earlier.

Tax Treatment of Distributions

In general, include IRA distributions in your gross income in the year you receive them.

Exceptions to this general rule are rollovers and timely withdrawals of contributions, discussed earlier, and the return of nondeductible contributions, discussed next under *Distributions Fully or Partly Taxable*. Distributions, including rollovers, are also discussed under *Savings Incentive Match Plan for Employees (SIMPLE),* later.

Ordinary income. IRA distributions that you must include in income are taxed as ordinary income.

No special treatment. In figuring your tax, you cannot use the special averaging or capital gain treatment that applies to lump-sum distributions from qualified employer plans.

Distributions Fully or Partly Taxable

Your IRA distributions 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 IRA (or IRAs, if you have more than one) since it was set up, 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 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.

When IRA distributions are made, special rules apply in figuring the tax on the distributions if:

- Only nondeductible IRA contributions were made and there are any earnings or gains, or
- Both deductible and nondeductible IRA contributions were made.

Only the part of the distribution that represents nondeductible contributions (your cost basis) is tax free. Once nondeductible contributions have been made, distributions consist partly of nondeductible contributions (basis) and partly of deductible contributions, earnings, or gains. Until you run out of basis, each distribution is partly taxable and partly nontaxable.

Form 8606. You must complete, and attach to your return, Form 8606 if you receive an IRA distribution and have ever made nondeductible IRA contributions. Using the form, you will figure the nontaxable distributions for 1997, and your total IRA basis for 1997 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. 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 IRA includes nondeductible contributions and you received a distribution from it in 1997, you must use Form 8606 to figure how much of your 1997 IRA distribution is tax free.

Covered by employer plan? If you are covered by an employer retirement plan and you made IRA contributions for 1997 that may be nondeductible, depending on whether your IRA deduction for that year is reduced (see *Deduction Limits,* in chapter 3), you can use the following worksheet to figure how much of your 1997 IRA distribution(s) is tax free and how much is taxable. Use the related instructions, under *Reporting your nontaxable distribution on Form 8606,* later, to figure your remaining basis after the distribution.

Worksheet to Figure Taxable Part of Distribution

Use only if you have to figure the taxable part of your 1997 distributions to determine your modified AGI for that year; see *Deduction Limits* in chapter 3.

1) Enter the basis in your IRA(s) as of 12/31/96	$
2) Enter all IRA contributions made for 1997, **whether or not deductible.** Include contributions made during 1/1/98 – 4/15/98 for the 1997 year, but exclude contributions rolled over from retirement plans	$
3) Add lines 1 and 2	$
4) Enter the value of ALL your IRA(s) as of 12/31/97 (include any outstanding rollovers)	$
5) Enter the total IRA distributions received in 1997. (Do not include outstanding rollovers.)	$
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	$
9) **Taxable portion** of the distribution. Subtract line 8 from line 5	$

Reporting your nontaxable distribution on Form 8606. To report your nontaxable distribution and to figure the remaining basis in your IRA after distributions, you can follow these steps.

1) Use the worksheet in the Form 1040 or 1040A instructions to figure your deductible IRA contributions to report on line 23 of Form 1040 or line 15 of Form 1040A.

2) After you complete the worksheet in the form instructions, enter your nondeductible IRA contributions on line 1 of Form 8606.

3) Complete lines 2–5 of Form 8606. If your IRA basis before 1997 distributions (line 5 of Form 8606) is less than the nontaxable part of those distributions (line 8 of the above worksheet), complete lines 6–13 of Form 8606 and **stop here.** If line 5 of Form 8606 is equal to or greater than line 8 of the above worksheet, follow instructions 4 and 5, next. Do not complete lines 6–9 of Form 8606.

4) Enter the amount from line 8 of the above worksheet on line 10 of Form 8606. Enter the amount from line 9 on line 13 of Form 8606.

5) Complete lines 11 and 12 of Form 8606.

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

Year	Deductible	Nondeductible
1990	$2,000	–0–
1991	2,000	–0–
1992	2,000	–0–
1993	1,000	–0–
1994	1,000	–0–
1995	1,000	–0–
1996	700	$ 300
Totals	$9,700	$ 300

In 1997, Rose, whose IRA deduction for that year may be reduced or eliminated, makes a $2,000 contribution that may be partly nondeductible. She also withdraws $5,000. At the end of that year, the fair market value of her accounts, including earnings, total $20,000. She did not have any tax-free withdrawals in earlier years. The amount she includes in income is figured as follows:

Worksheet to Figure Taxable Part of Distribution

Use only if you have to figure the taxable part of your 1997 distributions to determine your modified AGI for that year; see *Deduction Limits* in chapter 3.

1) Enter the basis in your IRA(s) as of 12/31/96	$ 300
2) Enter all IRA contributions made for 1997, **whether or not deductible.** Include contributions made during 1/1/98 – 4/15/98 for the 1997 year, but exclude contributions rolled over from retirement plans	$ 2,000
3) Add lines 1 and 2	$ 2,300
4) Enter the value of ALL your IRA(s) as of 12/31/97 (include any outstanding rollovers)	$ 20,000
5) Enter the total IRA distributions received in 1997. (Do not include outstanding rollovers.)	$ 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	$ 460
9) **Taxable portion** of the distribution. Subtract line 8 from line 5	$ 4,540

The Form 8606 for Rose, illustrated later, 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 IRA investment, you can recognize the loss on your income tax return, but only when all the amounts in all your 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 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 an IRA totaling $2,000, giving him a basis at the end of 1996 of $2,000. By the end of 1997, his IRA earns $400 in interest income. In that year, Bill withdraws $600, reducing the value of his IRA to $1,800 at year's end. Bill figures the taxable part of the distribution and his remaining basis on Form 8606 (illustrated in Appendix D).

In 1998, Bill's IRA has a ***loss*** of $500. At the end of that year, Bill's IRA balance is $1,300. Bill's remaining basis in his IRA is $1,500. Bill withdraws the $1,300 balance remaining in the IRA. He can claim a loss for 1998 of $200 (the $1,500 basis minus the $1,300 withdrawn IRA balance). Bill completes Form 8606 as illustrated in Appendix D.

Inherited IRAs

The beneficiaries of your IRA must include distributions to them in their gross incomes.

Beneficiaries. Your beneficiaries can be your estate, dependents, and anyone you choose to receive the benefits of your IRA after you die.

Spouse. If you inherit an interest in an IRA from your spouse, you can elect to treat the entire inherited interest as your own IRA as discussed under *Inherited IRAs* in chapter 2. See the discussion earlier under *Required Distributions* for the rules on when you must begin to make withdrawals from the IRA.

Beneficiary other than spouse. If you inherit an IRA from someone other than your spouse, you cannot treat it as though you established it. The IRA cannot be rolled over into, or receive a rollover from, another IRA. No deduction will be allowed for amounts paid into that inherited IRA, nor can nondeductible contributions be made to an inherited IRA.

IRA with basis. If you inherit an 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 IRA(s) or any basis in IRA(s) you inherited from other decedents. If you take

Form **8606**

Department of the Treasury
Internal Revenue Service

Nondeductible IRAs (Contributions, Distributions, and Basis)

▶ **Please see What Records Must I Keep? below.**
▶ **Attach to Form 1040, Form 1040A, or Form 1040NR.**

OMB No. 1545-1007

1997

Attachment Sequence No. **47**

Name. If married, file a separate Form 8606 for each spouse who is required to file Form 8606. See 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

Contributions, Nontaxable Distributions, and Basis

1	Enter your nondeductible IRA contributions for 1997, including those made during 1/1/98–4/15/98 that were for 1997. See instructions	1	500
2	Enter your total IRA basis for 1996 and earlier years. See instructions	2	300
3	Add lines 1 and 2	3	800

Did you receive any IRA distributions (withdrawals) in 1997?
No ▶ Enter the amount from line 3 on line 12. Then, **stop** and read **When and Where To File** below.
Yes ▶ Go to line 4.

4	Enter only those contributions included on line 1 that were made during 1/1/98–4/15/98. This amount will be the same as line 1 if all of your nondeductible contributions for 1997 were made in 1998 by 4/15/98. See instructions	4	0
5	Subtract line 4 from line 3	5	800
6	Enter the total value of **ALL** your IRAs as of 12/31/97 plus any outstanding rollovers. See instructions	6	
7	Enter the total IRA distributions received during 1997. Do not include amounts rolled over before 1/1/98. See instructions	7	
8	Add lines 6 and 7	8	
9	Divide line 5 by line 8 and enter the result as a decimal (rounded to two places). Do not enter more than "1.00"	9	× .
10	Multiply line 7 by line 9. This is the amount of your **nontaxable distributions for 1997**	10	460 *
11	Subtract line 10 from line 5. This is the **basis in your IRA(s) as of 12/31/97**	11	340
12	Add lines 4 and 11. This is your **total IRA basis for 1997 and earlier years**	12	340

Taxable Distributions for 1997

13	Subtract line 10 from line 7. Enter the result here and on Form 1040, line 15b; Form 1040A, line 10b; or Form 1040NR, line 16b, whichever applies	13	4,540 *

Sign Here Only if You Are Filing This Form by Itself and Not With Your Tax Return

Under penalties of perjury, I declare that I have examined this form, including accompanying attachments, and to the best of my knowledge and belief, it is true, correct, and complete.

▶ Your signature ▶ Date

Cat. No. 63966F

Form **8606** (1997)

* From Worksheet in Publication 590

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 IRA after you die. The beneficiary can deduct the part of the estate tax paid on any part of a distribution that the beneficiary must include in income as income in respect of a decedent. He or she can take the deduction for the tax year the beneficiary reports that income. 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.

If the beneficiary is your spouse, he or she can, as the surviving spouse, roll over the distribution to another IRA and avoid including it in income for the year received.

Other Special IRA Situations

There are other special IRA situations that you may encounter. They include the following:

Distribution of an annuity contract from your IRA account. You can tell the trustee or custodian of your 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 from your account. You are taxed when you start receiving payments from that annuity contract.

Tax treatment. If only deductible contributions were made to your IRA since it was set up (This includes all your IRAs, if you have more than one.), the annuity payments are fully taxable.

If your IRA includes 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. This 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 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.

The number codes are explained below.

1—Early (premature) distribution, no known exception.

2—Early (premature) distribution, exception applies.

3—Disability.

4—Death.

5—Prohibited transaction.

6—Section 1035 exchange (a tax-free exchange of life insurance, annuity, or endowment contracts).

7—Normal distribution.

8—Excess contributions plus earnings/ excess deferrals (and/or earnings) taxable in 1997.

9—PS-58 costs (premiums paid by a trustee or custodian for current insurance protection, taxable to you currently).

The letter codes are explained below.

P—Excess contributions plus earnings/ excess deferrals taxable in 1996.

A—May be eligible for 5 or 10-year tax options.

B—May be eligible for death benefit exclusion.

C—May be eligible for both A and B.

D—Excess contributions plus earnings/ excess deferrals taxable in 1995.

E—Excess annual additions under section 415.

F—Charitable gift annuity.

G—Direct rollover to IRA.

H—Direct rollover to qualified plan or tax-sheltered annuity.

L—Loans treated as distributions.

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 IRA distributions unless you choose not to have tax withheld. See *Rollover From Employer's Plan Into an IRA* in chapter 4.

The 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, the tax withheld will be determined by treating you as a married individual claiming three withholding allowances.

Generally, tax will be withheld at a 10% rate on a nonperiodic distribution.

Withholding from 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 your IRA distributions.

To choose exemption from withholding, you must certify to the payer under penalties of perjury that you 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 *Withholding on Pensions and Annuities* in 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 premature distributions, on line 15b, Form 1040 (no entry is required on line 15a), or line 10b, Form 1040A. If only part of the distribution is taxable, enter the total amount on line 15a, Form 1040 (or line 10a, Form 1040A), and the taxable part on line 15b (or 10b). 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 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

Form 1040

Income				
Attach Copy B of your Forms W-2, W-2G, and 1099-R here.	7	Wages, salaries, tips, etc. Attach Form(s) W-2	7	
If you did not get a W-2, see page 12.	8a	**Taxable** interest. Attach Schedule B if required	8a	
	b	**Tax-exempt** interest. DO NOT include on line 8a 8b		
	9	Dividends. Attach Schedule B if required	9	
	10	Taxable refunds, credits, or offsets of state and local income taxes (see page 12)	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	13	
	14	Other gains or (losses). Attach Form 4797	14	
	15a	Total IRA distributions 15a **b** Taxable amount (see page 13)	15b	
	16a	Total pensions and annuities 16a **b** Taxable amount (see page 13)	16b	
Enclose but do not attach any payment. Also, please use **Form 1040-V.**	17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	
	18	Farm income or (loss). Attach Schedule F	18	
	19	Unemployment compensation	19	
	20a	Social security benefits 20a **b** Taxable amount (see page 14)	20b	
	21	Other income. List type and amount—see page 15	21	
	22	Add the amounts in the far right column for lines 7 through 21. This is your **total income** ▶	22	

Form 1040A

			Dollars	Cents
7	Wages, salaries, tips, etc. Attach Form(s) W-2.	7		
8a	**Taxable** interest income. Attach Schedule 1 if required.	8a		
b	**Tax-exempt** interest. DO NOT include on line 8a. 8b			
9	Dividends. Attach Schedule 1 if required.	9		
10a	Total IRA distributions. 10a — 10b Taxable amount (see page 19).	10b		
11a	Total pensions and annuities. 11a — 11b Taxable amount (see page 19).	11b		
12	Unemployment compensation.	12		
13a	Social security benefits. 13a — 13b Taxable amount (see page 21).	13b		
14	Add lines 7 through 13b (far right column). This is your **total income.** ▶	14		
15	IRA deduction (see page 21).	15		
16	Subtract line 15 from line 14. This is your **adjusted gross income.** If under $29,290 (under $9,770 if a child did not live with you), see the EIC instructions on page 27. ▶	16		

Attach Copy B of W-2 and 1099-R here. Cat. No. 11327A **1997 Form 1040A** estate. For more information, see the instructions for schedules I and S, Form 706, *United States Estate (and Generation-Skipping Transfer) Tax Return.*

6.

What Acts Result in Penalties?

The tax advantages of using 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:

- Making excess contributions,
- Making early withdrawals (taking premature distributions), and
- Allowing excess amounts to accumulate (failing to make required withdrawals).

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 IRA account or annuity by you or any disqualified person.

Examples of disqualified persons include your fiduciary and members of your family (spouse, ancestor, lineal descendant, and any spouse of a lineal descendant).

Some examples of prohibited transactions with an IRA are:

1) Borrowing money from it,
2) Selling property to it,
3) Receiving unreasonable compensation for managing it,
4) Using it as security for a loan, and
5) Buying property for personal use (present or future) with IRA funds.

Effect on an IRA account. Generally, if you or your beneficiary engage in a prohibited transaction in connection with your IRA account at any time during the year, ***it will not be treated as 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 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 also have to pay the 10% tax on premature distributions, discussed later.

Borrowing on an annuity contract. If you borrow money against your 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 also have to pay the 10% additional tax on premature distributions, discussed later.

Pledging an account as security. If you use a part of your 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 premature 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 employee association, with whom you have your IRA, engages in a prohibited transaction.

Owner participation. If you participate in the prohibited transaction with your employer or association, your account is no longer treated as an IRA.

Taxes on prohibited transactions. If someone other than the owner or beneficiary of an 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. For transactions that occurred before August 6, 1997, the 15% tax was 10%.

Loss of IRA status. If the 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 above under *Effect on you (or your beneficiary).*

Investment in Collectibles

If your IRA invests in collectibles, the amount invested is considered distributed to you in the year invested. You may also have to pay the 10% tax on premature distributions, discussed later, and the taxes on prohibited transactions, discussed earlier.

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.

TIP *Beginning in 1998, your IRA can invest in certain platinum coins and certain gold, silver, palladium, and platinum bullion.*

Exemptions

Certain transactions viewed previously as prohibited transactions have been granted exemption from prohibited transaction penalties by the Department of Labor. Exemptions have been granted for the following, if they meet the requirements for exemption:

- Payments by an IRA sponsor of cash, property, or other consideration to an individual (or members of his family) for whose benefit the IRA is established or maintained, and
- Receipt of services from a bank at reduced or no cost by an individual for whose benefit an IRA is established or maintained.

Exemption for 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 given for establishing an 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 of the fair market value of the payments you receive cannot exceed:
   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 you are provided is group term life insurance, then requirements (a) and (b) do not apply provided that 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.

Exemption for services you receive at reduced or no cost. All of the following conditions must be satisfied for this exemption to apply.

1) The IRA taken into account for purposes of qualifying 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 an 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 an 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.

Excess Contributions

Generally, an excess contribution is the amount contributed to your IRAs that is more than the smaller of the following amounts:

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 7, *Simplified Employee Pension (SEP).*

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) as explained later, you are subject to a 6% tax. You must pay the 6% tax each year on excess amounts that remain in your IRA at the end of your tax year. The excess is taxed for the year of the excess contribution and for each year after that, until you correct it. 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 1997, 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 1997 and $6 interest in 1998 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 by multiplying the excess contribution ($500) shown on line 12, Form 5329, by .06, giving him an additional tax liability of $30. He enters the tax on line 13, Form 5329, and on line 50, Form 1040. See Paul's filled-in Form 5329 in Appendix C, later.

Excess contributions you withdraw by the date your return is due. You will not have to pay the 6% tax if you withdraw an excess contribution made during a tax year ***and*** interest or other income earned on it. You must complete your withdrawal by the date your tax return for that year is due, including extensions.

Withdrawn contribution treatment. Do not include in your gross income an excess contribution that you withdraw from your 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) The interest or other income earned on the excess was also withdrawn.

Withdrawn interest or other income treatment. 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 withdrawals, 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, these forms will indicate the year in which the earnings are taxable.

Excess contributions you withdraw after your return is due. In general, you must include all withdrawals from your IRA in your gross income. However, if the total contributions (other than rollover contributions) for the year to your IRA are $2,000 or less and there are no employer contributions for the year, you can withdraw any excess contribution after the due date for filing your tax return for that year, including extensions, and not include the amount withdrawn in your gross income. This applies only to the part of the excess for which you did not take a deduction. The 6% tax applies to the excess contribution amount that remains in your IRA at the end of a year. (This includes the year of the contribution and any later year.)

Excess contribution deducted in an earlier year. If you deducted an excess contribution in an earlier year for which the total contributions were $2,250 or less and for which there were no employer contributions, you can still remove the excess from your 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 IRA is the result of a rollover and the excess occurred because you had incorrect information required to be supplied by the plan, 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, in the year you withdraw it, the excess contribution that was the result of the incorrect information.

Taking a deduction in a later year for an excess contribution. You cannot reduce an excess by applying it against an earlier year in which less than the maximum amount allowable was contributed. But you can 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 from your gross income, in the first available tax year, the amount of the excess contributions in your IRA, from preceding years, up to the difference between the maximum amount that is deductible in the year and the amount actually contributed during the 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 IRA and deduct $1,000 in 1996 and $1,500 in 1997, the amounts of her taxable compensation for these years. In 1996, she actually contributed $1,400 but could deduct only $1,000. In 1996, $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 1996 return. Since Terry did not withdraw the excess, she owes excise tax of $24 for 1996. To avoid the excise tax for 1997, she can correct the $400 excess amount from 1996 in 1997 if her actual contributions are only $1,100 in 1997 (the allowable deductible contribution of $1,500 minus the $400 excess from 1996 she wants to treat as a deductible contribution in 1997). Terry can deduct $1,500 in 1997 (the $1,100 actually contributed plus the $400 excess contribution from 1996).

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 an 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.

Premature Distributions (Early Withdrawals)

You must include premature distributions from your IRA in your gross income. Premature distributions (sometimes called early withdrawals or early distributions) are also subject to an additional 10% tax, as discussed later.

Premature distributions defined. Premature distributions are amounts you withdraw from your 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. In certain circumstances, the additional tax does not apply to distributions from your IRA, even though they are made before you are age 59½. There are exceptions for:

- Certain medical expenses,
- Disability,
- Death, and
- Annuity distributions.

TIP *Beginning in 1998, the 10% additional tax on premature distributions from an IRA will not apply if the distribution is not more than qualified higher education expenses during the year or is a qualified first-time homebuyer distribution.*

The exceptions are discussed in detail near the beginning of chapter 5 under *Exceptions.*

Receivership distributions. Premature distributions (with or without your consent) from savings institutions placed in receivership are subject to this tax unless one of the exceptions discussed above applies. This is true even if the distribution is from a receiver that is a state agency.

Additional tax. The additional tax on premature distributions is equal to 10% of the amount of the premature distribution that you must include in your gross income. This tax is in addition to any regular income tax that is due.

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, who is 35 years old and is not disabled, makes a $3,000 withdrawal from his IRA account. The $3,000 is a premature 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 withdrawal 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.

CAUTION *Early withdrawals of funds from a SIMPLE retirement plan made within 2 years of beginning participation in the plan are subject to a 25% penalty, rather than 10%.*

Nondeductible contributions. The tax on premature distributions does not apply to the part of a distribution that represents a return of your nondeductible contributions (basis).

Rollovers. Distributions that are rolled over, as discussed in chapter 4, can be made without your having to pay the regular income tax or the 10% additional tax.

Excess Accumulations (Insufficient Distributions)

You cannot keep amounts in your IRA indefinitely. Generally, you must begin receiving distributions by April 1 of the year following the year in which you reach age 70½. 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 in chapter 5, 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 withdrawal.

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 an 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.

Conditions. To qualify for exemption from the tax, the assets in your IRA must include an affected investment. Also, the amount of your required distribution must be determined as discussed in chapter 5.

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 IRA (or IRAs) includes other assets in addition to your affected investment, all 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, premature (early) distributions, and excess accumulations.

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 50 of Form 1040. Write “No” next to line 50 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 premature distributions tax. 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.

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 50, 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 Internal Revenue Service for the tax you owe, as shown on Form 5329. Write your social security number and “1997 Form 5329” on your check or money order.

7. Simplified Employee Pension (SEP)

A simplified employee pension (SEP) is a written arrangement (a plan) that allows an employer to make contributions toward his or her own (if a ***self-employed individual***) and employees' retirement, without becoming involved in more complex retirement plans. The contributions are made to IRAs (SEP-IRAs) of the participants in the plan. Under a SEP, IRAs are set up for, at a minimum, 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).

An employer can use **Form 5305-SEP** to satisfy the written arrangement requirement for a SEP. A SEP can be established at any time during a year. However, the time for making contributions for a year under a SEP agreement is limited. See *Time limit for contributions,* later.

Note. The SEP plan under which contributions are made can be set up after the close of the year for which contributions are made. However, the plan must exist at the time the contributions are made and they must be made within the time limit. See *Time limit for contributions,* later.

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 later).

Definitions

Some of the terms used in this chapter are explained below.

Self-employed individual. 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 a SEP-IRA.

Qualifying employee. A qualifying employee is one who meets all of the following conditions:

1) Is at least 21 years old,
2) Has worked for the employer during at least 3 of the 5 years immediately preceding the tax year, and
3) Has received from the employer at least $400 in compensation in the tax 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) Your services are provided under an agreement between the recipient and the leasing organization.

2) Your services are performed for the recipient, or for the recipient and related persons, on a substantially full-time basis, for a period of at least one year.

3) Your services are performed under the primary direction and control of the recipient.

For more information on leased employees, see the discussion in Publication 560.

Excludable employees. The following groups of employees can be excluded from coverage under a SEP:

1) Employees covered by a union agreement and whose retirement benefits were bargained for in good faith by their union and their employer, and

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.*

Highly compensated employee. A highly compensated employee is any employee who meets either of the following two conditions.

1) The employee owns (or owned last year) more than 5% of the capital or profits interest in the employer (if not a corporation); or more than 5% of the outstanding stock, or more than 5% of the total voting power of all stock, of the employer corporation.

2) The employee's compensation from the employer for last year was more than $80,000 and (if the employer elects to apply this clause for last year) the employee was in the top 20% when ranked on the basis of last year's compensation.

Contributions

The SEP rules permit an employer to contribute (and deduct) each year to each participating employee's SEP-IRA up to ***15%*** of the employee's compensation ***or $30,000,*** whichever is less. These contributions are funded by the employer.

Figuring the 15% limit. For purposes of determining the 15% limit, compensation is generally limited to $160,000, 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 1997, before his employer's contribution to his SEP-IRA, was $180,000. Barry's employer can contribute up to $24,000 (15% × $160,000) 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.*** See *Net earnings from self-employment,* 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 rate from the *Self-Employed Person's Rate Worksheet*	______
Step 2 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)	$______
Step 3 Enter your deduction for self-employment tax from line 26, Form 1040	$______
Step 4 Subtract Step 3 from Step 2 and enter the result	$______
Step 5 Multiply Step 4 by Step 1 and enter the result	$______
Step 6 Multiply $160,000 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.*** Enter your deduction on line 28, Form 1040	$______

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	Instruction	Amount
Step 1	Enter your rate from the *Self-Employed Person's Rate Worksheet*	0.095
Step 2	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)	$ 200,000
Step 3	Enter your deduction for self-employment tax from line 26, Form 1040	$ 6,733
Step 4	Subtract Step 3 from Step 2 and enter the result	$ 193,267
Step 5	Multiply Step 4 by Step 1 and enter the result	$ 18,360
Step 6	Multiply $160,000 by your plan contribution rate. Enter the result but not more than $30,000	$ 16,800
Step 7	Enter the smaller of Step 5 or Step 6. This is your ***maximum deductible contribution.*** Enter your deduction on line 28, Form 1040.	$ 16,800

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. Net earnings do not include tax-free items (or deductions related to them), but do include foreign earned income and housing cost amounts. Net earnings include a partner's distributive share of partnership income or loss (other than separately treated items such as capital gains or losses). If paid for services to or for the partnership, net earnings include guaranteed payments to a limited partner. They do not include distributions of income or loss to a limited partner.

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.

Tax Treatment of Employer's Contributions

Unlike your contributions to IRAs, contributions to your SEP-IRA by your employer 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, *Wage and Tax Statement,* unless there are contributions under a salary reduction arrangement.

Contributions under a salary reduction arrangement. Form W–2 should include contributions under a salary reduction arrangement (discussed later) for social security and Medicare tax purposes only.

No excess contributions. If there are no excess contributions, you do not include any contributions in your gross income; nor do you deduct any of them.

Excess contributions. If there are excess employer contributions, you must include them 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 6) 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 6) on the early withdrawal 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 premature 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 withdrawal of interest or other income earned on the excess contribution.

Contributions You Make to Your SEP-IRA

If you 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 chapter 3, *How Much Can I Contribute and Deduct?*

Excess contributions you make. For information on excess contributions you make to your SEP-IRA independent of employer SEP contributions, see chapter 6, *What Acts Result in Penalties?*

Tax Treatment by 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 28, 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 the 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.*** Form 5305A-SEP can be used by an employer to set up such an arrangement.

CAUTION *An employer cannot start a simplified employee pension (SEP) that includes a salary reduction arrangement. Only SEPs that allowed employees to choose elective deferrals as of December 31, 1996, can include salary reduction arrangements.*

Restrictions on election. You can choose elective deferrals only if all three of the following conditions exist.

- At least 50% of employees eligible to participate choose elective deferrals.
- There were no more than 25 eligible employees at any time during the preceding year.
- The amount deferred each year by each eligible highly compensated employee as a percentage of pay is no more than 125% of the average deferral percentage of all other eligible employees (ADP test). Generally, compensation that is more than $160,000 cannot be considered in figuring an employee's deferral percentage.

Exceptions. An elective deferral arrangement is not available for a SEP maintained by a state or local government, any of their political subdivisions, agencies, or instrumentalities, or a tax-exempt organization.

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 1997, is limited to $9,500. This limit applies only to the amounts that represent a reduction from your salary, not to any contributions from employer funds.

Elective deferrals, not exceeding the ADP test, are excluded from your income in the year of deferral, but are included in wages for social security, Medicare, and unemployment (FUTA) tax purposes.

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 $160,000 for 1997) or $30,000, whichever is less.

Distributions (Withdrawals)

An employer cannot prohibit withdrawals 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 IRA rules. For information on these rules, including tax treatment of distributions, tax-free rollovers, required distributions, and income tax withholding, see chapter 5, *When Can I Withdraw and Use Assets From an IRA?*

8. 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 discusses the following topics:

- What is a SIMPLE plan?
- Contributions, and
- Distributions

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 IRAs***).

This chapter only discusses the SIMPLE plan rules as they relate to SIMPLE IRAs. See Publication 560 for information on any special rules for 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 rollover or transfer your SIMPLE IRA to another financial institution. See* Rollovers and transfers, *later.*

What Is a SIMPLE Plan?

A SIMPLE plan is a new 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 arrangement***) between an employer and an employee that allows an eligible employee (including a self-employed individual) to choose to:

- Reduce his or her compensation by a certain percentage each pay period, and
- Have the employer contribute the salary reductions to a SIMPLE IRA on behalf of the employee. These contributions are called ***salary reduction contributions.***

Contributions

All contributions under a SIMPLE plan must be made to SIMPLE IRAs, not to any other type of IRA. Contributions are made on behalf of ***eligible employees***. (See *Eligible Employees,* later.) Contributions are also subject to various ***limits***. (See *Limits,* later.)

In addition to salary reduction contributions, an employer must make either ***matching contributions*** or ***nonelective contributions***.

Salary reduction contributions. During the 60–day period before the beginning of any year, an eligible employee can choose salary reduction contributions expressed either as a percentage of compensation, or as a specific dollar amount (if the employer offers this choice). An employee can choose to cancel the election at any time during the year.

An 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 later.

Matching contributions. Employers, unless they choose to make non-elective contributions, must make contributions equal to the salary reduction contributions chosen (elected) by the employee, but only up to certain limits. See *Limits,* later. These contributions are in addition to the salary reduction contributions and must be made to the SIMPLE IRAs of all eligible employees (defined later) 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 for purposes of the limit on these contributions. See *Limits,* later.

Nonelective contributions. Instead of making matching contributions, employers, if they satisfy certain requirements, can 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 the employer, whether or not the employee chose salary reductions. (See *Limits,* later.)

One of the requirements the employer must satisfy is notifying the employees that the election was made. For other requirements that the employer must satisfy, see Publication 560.

Eligible Employees

Employees must be allowed to participate in the employer's SIMPLE plan if they:

- Received at least $5,000 in ***compensation*** from the 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 plan purposes, the term employee includes a self-employed individual who received earned income.

Excludable employees. An employer can exclude from eligibility the following:

- 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.

Compensation — employee. For purposes of the SIMPLE plan rules, an employee's compensation for a year generally includes the following:

- Wages, tips, and other pay from the employer that is subject to income tax withholding, and
- Deferred amounts elected under any 401(k) plans, 403(b) plans, government (section 457(b)) plans, SEP plans, and SIMPLE plans.

Compensation — self-employed individual. For purposes of the SIMPLE plan rules, a self-employed individual's compensation for a year is his or her net earnings from self-employment (line 4, Section A of Schedule SE (Form 1040)) before subtracting any contributions made to a SIMPLE IRA on his or her behalf.

Limits

The limits on contributions to a SIMPLE IRA vary with the type of contribution that is made.

Salary reduction contributions. For 1997, salary reduction contributions (employee-chosen contributions) that an employer can make on behalf of an employee under a SIMPLE plan are limited to $6,000.

CAUTION *If an employee is a participant in any other employer plans during the year and has elective salary reductions or deferred compensation under those plans, the salary reduction contributions under the SIMPLE plan also are included in the $9,500 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 $7,500.

The employee, not the employer, is responsible for monitoring compliance with these limits.

Matching employer contributions. An employer can make matching contributions to the SIMPLE IRA of each eligible employee in an amount equal to the employee's salary reduction contributions. These matching contributions cannot be more than 3% of the employee's compensation for the calendar year.

Example 1. In 1997, Paul 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, Paul elected to have 12.5% of his weekly pay ($100) contributed to his SIMPLE IRA. For the full year, Paul's salary reduction contributions were $5,200, which is less than the $6,000 limit on these contributions.

Under the plan, Paul's employer was required to make matching contributions to Paul's SIMPLE IRA. Because the employer's matching contributions must equal Paul's salary reductions, but cannot be more than 3% of his compensation (before salary reductions) for the year, his employer's contribution was limited to $1,248 (3% of $41,600).

Example 2. Assume the same facts as in Example 1, except that Paul'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, Paul's salary reduction contributions for the year (2.5% times $240,000) were equal to the 1997 limit for salary reduction contributions—$6,000. Because 3% of Paul's compensation ($7,200) is more than the amount the employer was required to match ($6,000), the employer's matching contributions were limited to $6,000. In this example, total contributions made on Paul's behalf for the year were $12,000, the maximum contributions permitted under a SIMPLE plan for 1997.

Nonelective employer contributions. If an employer chooses to make nonelective contributions, instead of matching contributions, to each eligible employee's SIMPLE IRA, contributions must be 2% of the employee's compensation for the entire year. For 1997, only $160,000 of the employee's compensation can be taken into account to figure the contribution limit.

Example 3. Assume the same facts as in Example 2, except that Paul's employer chose to make nonelective contributions instead of matching contributions. Because the employer's nonelective contributions are limited to 2% of up to $160,000 of Paul's compensation, the employer's contribution to Paul's SIMPLE IRA was limited to $3,200 for 1997. In this example, total contributions made on Paul's behalf for the year were $9,200 (Paul's salary reductions of $6,000 plus the employer's contribution of $3,200).

Distributions (Withdrawals)

Generally, the same distribution (withdrawal) rules that apply to other IRAs apply to SIMPLE IRAs. These rules are discussed in chapter 5.

An employer cannot restrict an employee from making withdrawals from a SIMPLE IRA.

Tax Treatment

Generally, distributions from a SIMPLE IRA are fully taxable as ordinary income. If the distribution is a premature distribution (discussed earlier), it may be subject to the additional tax on premature distributions. See *Additional tax on premature distributions (early withdrawals),* later.

Rollovers and Transfers Exception

Generally, rollovers and trustee-to-trustee transfers are not taxable distributions. See *Two-year rule,* next.

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 two-year period beginning on the date on which the individual first participated in his or her employer's SIMPLE plan, must be contributed (or transferred) to another SIMPLE IRA. The two-year period begins on the first day on which contributions made by the individual's employer are deposited in the individual's SIMPLE IRA.

After the two-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 premature distributions (early withdrawals). The additional tax on premature distributions (discussed earlier) applies to SIMPLE IRAs. If a distribution is a premature distribution and occurs during the two–year period following the date on which the individual first participated in his or her employer's SIMPLE plan, the additional tax on premature distributions is increased from 10% to 25%.

Also, if a rollover distribution (or transfer) from a SIMPLE IRA does not satisfy the two-year rule, and is otherwise a premature distribution, the additional tax imposed because of the premature distribution is increased from 10% to 25% of the amount distributed.

Table 8.1 **Contribution/Distribution Quick Reference Chart— IRAs**

	Can contribute for the year by:	**Maximum contribution for the year limited to:**	**Must begin distributions [1] by:**
IRA	Due date of return (***not*** including extensions)	The lesser of $2000 or owner's taxable compensation[2]	April 1 of the year following the year in which owner reaches age 70½
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 5 for additional rules.

[2]If owner also has a SEP-IRA (or only a SEP-IRA) this contribution can be made instead to the SEP-IRA (in addition to the employer's contributions under the SEP plan).

[3]Compensation does not include your employer's contribution to your SEP-IRA or SIMPLE IRA and generally is limited to $160,000 in 1997. A special computation is required to figure the self-employed participant's contribution limit for a SEP-IRA. See chapter 7. SIMPLE IRA rules are in chapter 8.

[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 8.

9. How To Get More Information

You can get help from IRS in several ways.

Free publications and forms. To order free publications and forms, call 1–800–TAX–FORM (1–800–829–3676). You can also write to the IRS Forms Distribution Center nearest you. Check your income tax package for the address. Your local library or post office also may have the items you need.

For a list of free tax publications, order Publication 910, *Guide to Free Tax Services.* It also contains an index of tax topics and related publications and describes other free tax information services available from IRS, including tax education and assistance programs.

If you have access to a personal computer and modem, you also can get many forms and publications electronically. See *Quick and Easy Access to Tax Help and Forms* in your income tax package for details.

Tax questions. You can call the IRS with your tax questions. Check your income tax package or telephone book for the local number, or you can call 1–800–829–1040.

TTY/TDD equipment. If you have access to TTY/TDD equipment, you can call 1–800–829–4059 to ask tax questions or to order forms and publications. See your income tax package for hours of operation.

Evaluating the quality of our telephone services. To ensure that IRS representatives give accurate, courteous, and professional answers, we evaluate the quality of our "800 number" 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.

Appendices

To help you complete your tax return, the following appendices include worksheets, sample forms, and tables:

1) **Appendix A** — *Summary Record of IRA(s) for 1997* and *Worksheet For Determining Required Annual Distributions From Your IRA(s).*

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 IRA Deduction*

   c) Worksheet 3, *Computation of Taxable Social Security Benefits*

   d) Example and completed worksheets

3) **Appendix C** — Filled-in Form 5329, *Additional Taxes Attributable to Qualified Retirement Plans (Including IRAs), Annuities, Modified Endowment Contracts, and MSAs.*

4) **Appendix D** — Filled-in Forms 8606, *Nondeductible IRAs (Contributions, Distributions, and Basis).*

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 IRAs before age 70½.

APPENDIX A. Summary Record of IRA(s) for 1997 (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 IRA	Date	Amount contributed for 1997	Check, if rollover contribution	Fair Market value of IRA as of December 31, 1997, 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 IRA	Date	Amount of distribution	Reason (e.g., for retirement, rollover, 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 IRAs as of 12/31/97 (from Form 8606, line 11) $ ____________

Basis of all IRAs for 1997 (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 FROM YOUR IRA(s)

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 Requirement* in Chapter 5.

[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 an IRA

If you receive social security benefits, have taxable compensation, contribute to your IRA, and are covered (or considered covered) by an employer retirement plan, complete the following worksheets. (See *Who is Covered by an Employer Plan?* in Chapter 3.)

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 be 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 an IRA, 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 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 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 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)	$40,000*	$50,000
Single, or Head of household	$25,000*	$35,000
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 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.) . . . . ______
6. Enter contributions you made, or plan to make, to your IRA for 1997, but do not enter more than $2,000 . . . . ______
7. **IRA 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 (Contributions, Distributions, and Basis)* . . . . ______

Worksheet 3
Computation of Taxable Social Security Benefits
(For use by taxpayers who receive social security benefits and take an 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 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) IRA deduction(s) from line 7 of Worksheet 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 IRA Deduction and the Taxable Portion of Your Social Security Benefits

John Black is married and files a joint return. He had 1997 wages of $42,500. His wife did not work in 1997. He also received social security benefits of $7,000 and made a $2,000 contribution to his IRA for the year. He had no foreign income, no tax-exempt interest, and no adjustments to income on lines 24 through 30 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 1997 IRA deduction is $460. He must either withdraw the contributions that are more than the deduction (the $1,540 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 be 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 an IRA, or any exclusion of interest from savings bonds to be reported on Form 8815)	$42,500
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	46,000
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	14,000
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-	2,000
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-	1,700
15)	Add lines 13 and 14	5,200
16)	Multiply line 2 by .85	5,950
17)	**Taxable benefits** to be included in ***Modified AGI*** for IRA deduction purposes. Enter the smaller of line 15 or line 16	5,200
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 IRA Deduction—add lines 1, 17, and 18. Enter here and on line 2 of Worksheet 2, next	47,700

APPENDIX B. *(Continued)*

Worksheet 2
Computation of 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)	$40,000*	$50,000
Single, or Head of household	$25,000*	$35,000
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	$50,000
2. Enter your **modified AGI** from Worksheet 1, line 19	47,700
Note: *If line 2 is equal to or more than the amount on line 1,* ***stop here;*** *your IRA contributions are not deductible. Proceed to Worksheet 3.*	
3. Subtract line 2 from line 1	2,300
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	460
5. Enter your compensation. (If you are the lower income spouse, include your spouse's compensation reduced by his or her IRA deduction.)	42,500
6. Enter contributions you made, or plan to make, to your IRA for 1997, but do not enter more than $2,000	2,000
7. **IRA 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.)	460
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 (Contributions, Distributions, and Basis)*	1,540

APPENDIX B. *(Continued)*

Worksheet 3
Computation of Taxable Social Security Benefits
(For use by taxpayers who receive social security benefits and take an 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 social security benefits from Form SSA-1099 or RBB-1099, or any exclusion of interest from savings bonds to be reported on Form 8815) . . .	$42,500
2)	IRA deduction(s) from line 7 of Worksheet 2	460
3)	Subtract line 2 from line 1	42,040
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	45,540
9)	Enter the amount listed below for your filing status	32,000
	• **$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	13,540
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 before for your filing status	12,000
	• **$12,000** if you checked box **A** above. • **$ 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-	1,540

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-	1,309
17)	Add lines 15 and 16	4,809
18)	Multiply line 4 by .85	5,950
19)	**Taxable social security benefits.** Enter the smaller of line 17 or line 18	4,809

APPENDIX C. Filled-in Forms 5329 (for Examples in Chapter 6)

Form **5329**

Department of the Treasury
Internal Revenue Service

Additional Taxes Attributable to Qualified Retirement Plans (Including IRAs), Annuities, Modified Endowment Contracts, and MSAs

(Under Sections 72, 4973, and 4974 of the Internal Revenue Code)
► Attach to Form 1040. See separate instructions.

OMB No. 1545-0203

1997

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**
Paul Jones	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 are subject to the 10% tax on early distributions **only,** see **Who Must File** in the instructions before continuing. You may be able to report this tax directly on Form 1040 without filing Form 5329.

Part I **Tax on Early Distributions**

Complete this part if a taxable distribution was made from your qualified retirement plan (including an IRA), annuity contract, or modified endowment contract before you reached age 59½ (or was incorrectly indicated as such on your Form 1099-R—see instructions). ***Note:*** *You must include the amount of the distribution on line 15b or 16b of Form 1040.*

1	Early distributions included in gross income (see page 2 of the instructions)	1	
2	Distributions excepted from additional tax (see page 2 of the instructions). Enter appropriate exception number from instructions ► _______	2	
3	Amount subject to additional tax. Subtract line 2 from line 1	3	
4	**Tax due.** Multiply line 3 by 10% (.10). Enter here and on Form 1040, line 50	4	

Caution: *If any amount on line 3 was a distribution from a SIMPLE retirement plan, you must multiply that distribution by 25% (.25) instead of 10%. See instructions for more information.*

Part II **Tax on Excess Contributions to Individual Retirement Arrangements**

Complete this part if, either in this year or in earlier years, you contributed more to your IRA than is or was allowable and you have an excess contribution subject to tax.

5	Excess contributions for 1997 (see page 3 of the instructions). Do not include this amount on Form 1040, line 23			5	500
6	Earlier year excess contributions not previously eliminated (see page 3 of the instructions)	6			
7	Contribution credit. If your actual contribution for 1997 is less than your maximum allowable contribution, see page 3 of the instructions; otherwise, enter -0-	7			
8	1997 distributions from your IRA account that are includible in taxable income	8			
9	1996 tax year excess contributions (if any) withdrawn after the due date (including extensions) of your 1996 income tax return, and 1995 and earlier tax year excess contributions withdrawn in 1997	9			
10	Add lines 7, 8, and 9	10			
11	Adjusted earlier year excess contributions. Subtract line 10 from line 6. Enter the result, but not less than zero			11	
12	Total excess contributions. Add lines 5 and 11			12	500
13	**Tax due.** Enter the **smaller** of 6% (.06) of line 12 or 6% (.06) of the value of your IRA on the last day of 1997. Also enter this amount on Form 1040, line 50			13	30

For Paperwork Reduction Act Notice, see page 4 of separate instructions. Cat. No. 13329Q Form **5329** (1997)

Form **5329**

Department of the Treasury
Internal Revenue Service

Additional Taxes Attributable to Qualified Retirement Plans (Including IRAs), Annuities, Modified Endowment Contracts, and MSAs

(Under Sections 72, 4973, and 4974 of the Internal Revenue Code)
► Attach to Form 1040. See separate instructions.

OMB No. 1545-0203

1997

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 are subject to the 10% tax on early distributions **only,** see **Who Must File** in the instructions before continuing. You may be able to report this tax directly on Form 1040 without filing Form 5329.

Part I Tax on Early Distributions

Complete this part if a taxable distribution was made from your qualified retirement plan (including an IRA), annuity contract, or modified endowment contract before you reached age 59½ (or was incorrectly indicated as such on your Form 1099-R—see instructions). ***Note:*** *You must include the amount of the distribution on line 15b or 16b of Form 1040.*

1	Early distributions included in gross income (see page 2 of the instructions)	1	3,000
2	Distributions excepted from additional tax (see page 2 of the instructions). Enter appropriate exception number from instructions ► ______	2	0
3	Amount subject to additional tax. Subtract line 2 from line 1	3	3,000
4	**Tax due.** Multiply line 3 by 10% (.10). Enter here and on Form 1040, line 50	4	300

Caution: *If any amount on line 3 was a distribution from a SIMPLE retirement plan, you must multiply that distribution by 25% (.25) instead of 10%. See instructions for more information.*

Part II Tax on Excess Contributions to Individual Retirement Arrangements

Complete this part if, either in this year or in earlier years, you contributed more to your IRA than is or was allowable and you have an excess contribution subject to tax.

5	Excess contributions for 1997 (see page 3 of the instructions). Do not include this amount on Form 1040, line 23			5	
6	Earlier year excess contributions not previously eliminated (see page 3 of the instructions)	6			
7	Contribution credit. If your actual contribution for 1997 is less than your maximum allowable contribution, see page 3 of the instructions; otherwise, enter -0-	7			
8	1997 distributions from your IRA account that are includible in taxable income	8			
9	1996 tax year excess contributions (if any) withdrawn after the due date (including extensions) of your 1996 income tax return, and 1995 and earlier tax year excess contributions withdrawn in 1997	9			
10	Add lines 7, 8, and 9	10			
11	Adjusted earlier year excess contributions. Subtract line 10 from line 6. Enter the result, but not less than zero			11	
12	Total excess contributions. Add lines 5 and 11			12	
13	**Tax due.** Enter the **smaller** of 6% (.06) of line 12 or 6% (.06) of the value of your IRA on the last day of 1997. Also enter this amount on Form 1040, line 50			13	

For Paperwork Reduction Act Notice, see page 4 of separate instructions. Cat. No. 13329Q Form **5329** (1997)

APPENDIX D. Filled-in Forms 8606 (for Example in Chapter 5)

Form **8606**

Department of the Treasury
Internal Revenue Service

Nondeductible IRAs (Contributions, Distributions, and Basis)

► **Please see What Records Must I Keep? below.**
► **Attach to Form 1040, Form 1040A, or Form 1040NR.**

OMB No. 1545-1007
1997
Attachment Sequence No. **47**

Name. If married, file a separate Form 8606 for each spouse who is required to file Form 8606. See 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

Contributions, Nontaxable Distributions, and Basis

Line	Description			Line	Amount
1	Enter your nondeductible IRA contributions for 1997, including those made during 1/1/98–4/15/98 that were for 1997. See instructions			1	0
2	Enter your total IRA basis for 1996 and earlier years. See instructions			2	2,000
3	Add lines 1 and 2			3	2,000

Did you receive any IRA distributions (withdrawals) in 1997?
- **No** ► Enter the amount from line 3 on line 12. Then, **stop** and read **When and Where To File** below.
- **Yes** ► Go to line 4.

Line	Description			Line	Amount
4	Enter only those contributions included on line 1 that were made during 1/1/98–4/15/98. This amount will be the same as line 1 if all of your nondeductible contributions for 1997 were made in 1998 by 4/15/98. See instructions			4	0
5	Subtract line 4 from line 3			5	2,000
6	Enter the total value of **ALL** your IRAs as of 12/31/97 plus any outstanding rollovers. See instructions	6	1,800		
7	Enter the total IRA distributions received during 1997. Do not include amounts rolled over before 1/1/98. See instructions	7	600		
8	Add lines 6 and 7 — 8: 2,400				
9	Divide line 5 by line 8 and enter the result as a decimal (rounded to two places). Do not enter more than "1.00"	9	× .8333		
10	Multiply line 7 by line 9. This is the amount of your **nontaxable distributions for 1997**			10	500
11	Subtract line 10 from line 5. This is the **basis in your IRA(s) as of 12/31/97**			11	1,500
12	Add lines 4 and 11. This is your **total IRA basis for 1997 and earlier years**			12	1,500

Taxable Distributions for 1997

Line	Description	Line	Amount
13	Subtract line 10 from line 7. Enter the result here and on Form 1040, line 15b; Form 1040A, line 10b; or Form 1040NR, line 16b, whichever applies	13	100

Sign Here Only if You Are Filing This Form by Itself and Not With Your Tax Return

Under penalties of perjury, I declare that I have examined this form, including accompanying attachments, and to the best of my knowledge and belief, it is true, correct, and complete.

► Your signature ► Date

General Instructions

Section references are to the Internal Revenue Code.

A Change To Note

Beginning in 1997, SIMPLE IRAs are available to employees of small employers. **Do not** include contributions to a SIMPLE IRA on line 1. However, if you received any IRA distributions in 1997, you **must** include the value of your SIMPLE IRA on line 6.

Purpose of Form

Use Form 8606 to:

- Report your nondeductible IRA contributions,
- Figure the basis in your IRA(s), and
- Figure the taxable part of any distributions you received in 1997 if you have ever made nondeductible contributions.

Your **basis** is the total of all your nondeductible IRA contributions minus the total of all nontaxable IRA distributions received. It is to your advantage to keep track of your basis because it is used to figure the nontaxable part of future distributions.

Note: *To figure your deductible IRA contributions, see the Instructions for Form 1040, or Form 1040A, whichever applies.*

Who Must File

You must file Form 8606 if:

- You made nondeductible contributions to your IRA for 1997, **or**
- You received IRA distributions in 1997 **and** you have ever made nondeductible contributions to any of your IRAs.

What Records Must I Keep?

To verify the nontaxable part of distributions from your IRA, keep a copy of this form together with copies of the following forms and records until all distributions are made from your IRA(s):

- Page 1 of Forms 1040 (or Forms 1040A, 1040NR, or 1040-T) filed for each year you make a nondeductible contribution.
- Forms 5498 or similar statements received each year showing contributions you made.
- Forms 5498 or similar statements received showing the value of your IRA(s) for each year you received a distribution.
- Forms 1099-R and W-2P received for each year you received a distribution.

When and Where To File

Attach Form 8606 to your 1997 Form 1040, 1040A, or 1040NR.

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. Send it to the Internal Revenue Service at the same time and place you would otherwise file Form 1040, 1040A, or 1040NR.

For Paperwork Reduction Act Notice, see back of form. Cat. No. 63966F Form **8606** (1997)

Form **8606**

Department of the Treasury
Internal Revenue Service

Nondeductible IRAs (Contributions, Distributions, and Basis)

► **Please see What Records Must I Keep? below.**
► **Attach to Form 1040, Form 1040A, or Form 1040NR.**

OMB No. 1545-1007
1997
Attachment Sequence No. **47**

Name. If married, file a separate Form 8606 for each spouse who is required to file Form 8606. See 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

Contributions, Nontaxable Distributions, and Basis

1	Enter your nondeductible IRA contributions for 1997, including those made during 1/1/98–4/15/98 that were for 1997. See instructions	1	0
2	Enter your total IRA basis for 1996 and earlier years. See instructions	2	1,500
3	Add lines 1 and 2	3	1,500

Did you receive any IRA distributions (withdrawals) in 1997?

- **No** ► Enter the amount from line 3 on line 12. Then, **stop** and read **When and Where To File** below.
- **Yes** ► Go to line 4.

4	Enter only those contributions included on line 1 that were made during 1/1/98–4/15/98. This amount will be the same as line 1 if all of your nondeductible contributions for 1997 were made in 1998 by 4/15/98. See instructions	4	0
5	Subtract line 4 from line 3	5	1,500
6	Enter the total value of **ALL** your IRAs as of 12/31/97 plus any outstanding rollovers. See instructions — 6: 0		
7	Enter the total IRA distributions received during 1997. Do not include amounts rolled over before 1/1/98. See instructions — 7: 1,300		
8	Add lines 6 and 7 — 8: 1,300		
9	Divide line 5 by line 8 and enter the result as a decimal (rounded to two places). Do not enter more than "1.00" — 9: × 1.00		
10	Multiply line 7 by line 9. This is the amount of your **nontaxable distributions for 1997**	10	1,300
11	Subtract line 10 from line 5. This is the **basis in your IRA(s) as of 12/31/97**	11	200
12	Add lines 4 and 11. This is your **total IRA basis for 1997 and earlier years**	12	200

Taxable Distributions for 1997

13	Subtract line 10 from line 7. Enter the result here and on Form 1040, line 15b; Form 1040A, line 10b; or Form 1040NR, line 16b, whichever applies	13	

Sign Here Only if You Are Filing This Form by Itself and Not With Your Tax Return

Under penalties of perjury, I declare that I have examined this form, including accompanying attachments, and to the best of my knowledge and belief, it is true, correct, and complete.

► Your signature ► Date

General Instructions

Section references are to the Internal Revenue Code.

A Change To Note

Beginning in 1997, SIMPLE IRAs are available to employees of small employers. **Do not** include contributions to a SIMPLE IRA on line 1. However, if you received any IRA distributions in 1997, you **must** include the value of your SIMPLE IRA on line 6.

Purpose of Form

Use Form 8606 to:

- Report your nondeductible IRA contributions,
- Figure the basis in your IRA(s), and
- Figure the taxable part of any distributions you received in 1997 if you have ever made nondeductible contributions.

Your **basis** is the total of all your nondeductible IRA contributions minus the total of all nontaxable IRA distributions received. It is to your advantage to keep track of your basis because it is used to figure the nontaxable part of future distributions.

Note: *To figure your deductible IRA contributions, see the Instructions for Form 1040, or Form 1040A, whichever applies.*

Who Must File

You must file Form 8606 if:

- You made nondeductible contributions to your IRA for 1997, **or**
- You received IRA distributions in 1997 **and** you have ever made nondeductible contributions to any of your IRAs.

What Records Must I Keep?

To verify the nontaxable part of distributions from your IRA, keep a copy of this form together with copies of the following forms and records until all distributions are made from your IRA(s):

- Page 1 of Forms 1040 (or Forms 1040A, 1040NR, or 1040-T) filed for each year you make a nondeductible contribution.
- Forms 5498 or similar statements received each year showing contributions you made.
- Forms 5498 or similar statements received showing the value of your IRA(s) for each year you received a distribution.
- Forms 1099-R and W-2P received for each year you received a distribution.

When and Where To File

Attach Form 8606 to your 1997 Form 1040, 1040A, or 1040NR.

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. Send it to the Internal Revenue Service at the same time and place you would otherwise file Form 1040, 1040A, or 1040NR.

For Paperwork Reduction Act Notice, see back of form. Cat. No. 63966F Form **8606** (1997)

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.

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 Requirement* in chapter 5.

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 (comtinued)
(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 5.

Index

■

Tax Publications for Individual Taxpayers

General Guides

1 Your Rights as a Taxpayer
17 Your Federal Income Tax (For Individuals)
225 Farmer's Tax Guide
334 Tax Guide for Small Business
509 Tax Calendars for 1998
553 Highlights of 1997 Tax Changes
595 Tax Highlights for Commercial Fishermen
910 Guide to Free Tax Services

Specialized Publications

3 Armed Forces' Tax Guide
378 Fuel Tax Credits and Refunds
463 Travel, Entertainment, Gift, and Car Expenses
501 Exemptions, Standard Deduction, and Filing Information
502 Medical and Dental Expenses
503 Child and Dependent Care Expenses
504 Divorced or Separated Individuals
505 Tax Withholding and Estimated Tax
508 Educational Expenses
514 Foreign Tax Credit for Individuals
516 U.S. Government Civilian Employees Stationed Abroad
517 Social Security and Other Information for Members of the Clergy and Religious Workers
519 U.S. Tax Guide for Aliens
520 Scholarships and Fellowships
521 Moving Expenses
523 Selling Your Home
524 Credit for the Elderly or the Disabled
525 Taxable and Nontaxable Income
526 Charitable Contributions
527 Residential Rental Property
529 Miscellaneous Deductions
530 Tax Information for First-Time Homeowners
531 Reporting Tip Income
533 Self-Employment Tax
534 Depreciating Property Placed in Service Before 1987
537 Installment Sales
541 Partnerships
544 Sales and Other Dispositions of Assets
547 Casualties, Disasters, and Thefts (Business and Nonbusiness)
550 Investment Income and Expenses
551 Basis of Assets
552 Recordkeeping for Individuals
554 Older Americans' Tax Guide
555 Federal Tax Information on Community Property
556 Examination of Returns, Appeal Rights, and Claims for Refund
559 Survivors, Executors, and Administrators
561 Determining the Value of Donated Property
564 Mutual Fund Distributions
570 Tax Guide for Individuals With Income From U.S. Possessions
575 Pension and Annuity Income
584 Nonbusiness Disaster, Casualty, and Theft Loss Workbook
587 Business Use of Your Home (Including Use by Day-Care Providers)
590 Individual Retirement Arrangements (IRAs) (Including SEP-IRAs and SIMPLE IRAs)
593 Tax Highlights for U.S. Citizens and Residents Going Abroad
594 Understanding the Collection Process
596 Earned Income Credit
721 Tax Guide to U.S. Civil Service Retirement Benefits
901 U.S. Tax Treaties
907 Tax Highlights for Persons with Disabilities
908 Bankruptcy Tax Guide
911 Direct Sellers
915 Social Security and Equivalent Railroad Retirement Benefits
919 Is My Withholding Correct for 1998?
925 Passive Activity and At-Risk Rules
926 Household Employer's Tax Guide
929 Tax Rules for Children and Dependents
936 Home Mortgage Interest Deduction
946 How To Depreciate Property
947 Practice Before the IRS and Power of Attorney
950 Introduction to Estate and Gift Taxes
967 IRS Will Figure Your Tax
968 Tax Benefits for Adoption
1542 Per Diem Rates
1544 Reporting Cash Payments of Over $10,000
1546 The Problem Resolution Program of the Internal Revenue Service

Spanish Language Publications

1SP Derechos del Contribuyente
579SP Cómo Preparar la Declaración de Impuesto Federal
594SP Comprendiendo el Proceso de Cobro
596SP Crédito por Ingreso del Trabajo
850 English-Spanish Glossary of Words and Phrases Used in Publications Issued by the Internal Revenue Service
1544SP Informe de Pagos en Efectivo en Exceso de $10,000 (Recibidos en una Ocupación o Negocio)

Commonly Used Tax Forms

1040 U.S. Individual Income Tax Return
- **Sch A** Itemized Deductions
- **Sch B** Interest and Dividend Income
- **Sch C** Profit or Loss From Business
- **Sch C-EZ** Net Profit From Business
- **Sch D** Capital Gains and Losses
- **Sch E** Supplemental Income and Loss
- **Sch EIC** Earned Income Credit
- **Sch F** Profit or Loss From Farming
- **Sch H** Household Employment Taxes
- **Sch R** Credit for the Elderly or the Disabled
- **Sch SE** Self-Employment Tax

1040EZ Income Tax Return for Single and Joint Filers With No Dependents
1040A U.S. Individual Income Tax Return
- **Sch 1** Interest and Dividend Income for Form 1040A Filers
- **Sch 2** Child and Dependent Care Expenses for Form 1040A Filers
- **Sch 3** Credit for the Elderly or the Disabled for Form 1040A Filers

1040-ES Estimated Tax for Individuals
1040X Amended U.S. Individual Income Tax Return
2106 Employee Business Expenses
2106-EZ Unreimbursed Employee Business Expenses
2119 Sale of Your Home
2210 Underpayment of Estimated Tax by Individuals, Estates and Trusts
2441 Child and Dependent Care Expenses
2848 Power of Attorney and Declaration of Representative
3903 Moving Expenses
4562 Depreciation and Amortization
4868 Application for Automatic Extension of Time To File U.S. Individual Income Tax Return
4952 Investment Interest Expense Deduction
5329 Additional Taxes Attributable to Qualified Retirement Plans (Including IRAs), Annuities, and Modified Endowment Contracts
6251 Alternative Minimum Tax–Individuals
8283 Noncash Charitable Contributions
8582 Passive Activity Loss Limitations
8606 Nondeductible IRAs (Contributions, Distributions, and Basis)
8822 Change of Address
8829 Expenses for Business Use of Your Home