

## **2007 Instructions for Form 8606 Nondeductible IRAs**

**Purpose:** This is the first circulated draft of the 2007 Instructions for Form 8606 for your review and comments. See below for a discussion of the major changes.

**TPCC Meeting:** None, but one may be arranged if requested.

**Prior Version:** The 2006 Instructions for Form 8606 are available at:  
<http://www.irs.gov/pub/irs-pdf/i8606.pdf>

**Form:** The 2007 Form 8606 was circulated earlier at:  
[http://taxforms.web.irs.gov/Products/Drafts/2007-2/07f8606\\_d1.pdf](http://taxforms.web.irs.gov/Products/Drafts/2007-2/07f8606_d1.pdf)

**Other Products:** Circulations of draft tax forms, instructions, notices, and publications are posted at:  
[http://taxforms.web.irs.gov/draft\\_products.html](http://taxforms.web.irs.gov/draft_products.html)

**Comments:** Please email, fax, call, or mail any comments by **July 13, 2007**.

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### **Major Changes to the 2007 Instructions for Form 8606**

- A *What's New* item, *Modified AGI limit for Roth IRA contributions increased*, was added. The modified AGI limit for Roth IRA contributions is adjusted for inflation. P.L. 109-280, section 833(c); IRC 408A(c)(3); 219(g)(8)27.
- A *What's New* item, *Qualified health savings account (HSA) funding distribution*, was added. A one-time distribution from an IRA can be made to fund an HSA. P.L. 109-432, section 307; IRC 408(d)(9).
- A *What's New* item, *Catch-up contributions in certain employer bankruptcies*, was added. P.L. 109-280, section 831; IRC 219(b)(5)(C).
- References to qualified hurricane distributions were removed because they cannot be made after 12/31/2006. IRC 1400Q.

- Under *Who Must File*, HSA funding distributions were added to the list in the second bullet of distributions that are not included for this purpose. P.L. 109-432, section 307; IRC 408(d)(9).
- Under Overall Contribution Limit for Traditional and Roth IRAs, a discussion of *Catch-up contributions in certain employer bankruptcies*, was added. A similar note was added at the bottom of the *Maximum Roth IRA Contribution Worksheet*. P.L. 109-280, section 831; IRC 219(b)(5)(C).
- Year references were updated as appropriate.



# Instructions for Form 8606

## Nondeductible IRAs

Section references are to the Internal Revenue Code unless otherwise noted.

## General Instructions

### What's New

**Modified AGI limit for Roth IRA contributions increased.** You can contribute to a Roth IRA for 2007 only if your 2007 modified adjusted gross income (AGI) for Roth IRA purposes is less than:

- \$166,000 if married filing jointly or qualifying widow(er),
- \$114,000 if single, head of household, or married filing separately and you did not live with your spouse at any time in 2007, or
- \$10,000 if married filing separately and you lived with your spouse at any time in 2007.

See *Roth IRAs* that begins on page 2.

**Qualified health savings account (HSA) funding distribution.** If you are covered by a high deductible health plan (HDHP), you may be able to make a nontaxable HSA funding distribution from your IRA (other than a SEP or SIMPLE IRA) that would otherwise be included in income. The distribution must be a direct trustee-to-trustee transfer to an HSA. The distribution will be nontaxable to the extent it is not more than the limit on your annual HSA contributions. For more information about HSAs, see Publication 969, *Health Savings Accounts and Other Tax-Favored Health Plans*.

**Catch-up contributions in certain employer bankruptcies.** If you participated in a 401(k) plan and the employer who maintained the plan filed for bankruptcy in an earlier year, you may be able to contribute up to \$7,000 to your traditional or Roth IRA. See Pub. 590, *Individual Retirement Arrangements (IRAs)* for more details.

### Purpose of Form

Use Form 8606 to report:

- Nondeductible contributions you made to traditional IRAs,
- Distributions from traditional, SEP, or SIMPLE IRAs, if you have ever made nondeductible contributions to traditional IRAs,
- Distributions from Roth IRAs, and
- Conversions from traditional, SEP, or SIMPLE IRAs to Roth IRAs.

**Additional information.** See Pub. 590, for more details.



*If you received distributions from a traditional, SEP, or SIMPLE IRA in 2007 and you have never made nondeductible contributions to traditional IRAs, do not report the distributions on Form 8606. Instead, see the instructions for Form 1040, lines 15a and 15b; Form 1040A, lines 11a and 11b; or Form 1040NR, lines 16a and 16b. Also, to find out if any of your contributions to traditional IRAs are deductible, see the instructions for Form 1040, line 32; Form 1040A, line 17; or Form 1040NR, line 31.*

### Who Must File

File Form 8606 if any of the following apply.

- You made nondeductible contributions to a traditional IRA for 2007, including a repayment of a reservist distribution.
- You received distributions from a traditional, SEP, or SIMPLE IRA in 2007 and your basis in traditional IRAs is more than zero. For this purpose, a distribution does not include a rollover, qualified charitable distribution, a one-time distribution to fund an HSA, conversion, recharacterization, or return of certain contributions.
- You converted an amount from a traditional, SEP, or SIMPLE IRA to a Roth IRA in 2007 (unless you recharacterized the entire conversion—see page 3).
- You received distributions from a Roth IRA in 2007 (other than a rollover, recharacterization, or return of certain contributions—see page 7).
- You made a repayment of a qualified hurricane distribution that is attributable to previously nondeductible contributions.

**Note.** If you recharacterized a 2007 Roth IRA contribution as a traditional IRA contribution, or vice versa, treat the contribution as having been made to the second IRA, not the first IRA. See page 3.



*You do not have to file Form 8606 solely to report regular contributions to Roth IRAs. But see What Records Must I Keep? on page 5.*

### When and Where To File

File Form 8606 with your 2007 Form 1040, 1040A, or 1040NR. If you are not required to file an income tax return but are required to file Form 8606, sign Form 8606 and send it to the Internal Revenue Service at the same time and place you would otherwise file Form 1040, 1040A, or 1040NR.

### Definitions

#### Deemed IRAs

A qualified employer plan (retirement plan) can maintain a separate account or annuity under the plan (a deemed IRA) to receive voluntary employee contributions. If in 2007 you had a deemed IRA, use the rules for either a traditional IRA or a Roth IRA depending on which type it was. See Pub. 590 for more details.

#### Traditional IRAs

For purposes of Form 8606, a traditional IRA is an individual retirement account or an individual retirement annuity other than a SEP, SIMPLE, or Roth IRA.

**Contributions.** An overall contribution limit applies to traditional IRAs and Roth IRAs. See *Overall Contribution Limit for Traditional and Roth IRAs* that begins on page 2. Contributions to a traditional IRA may be fully deductible, partially deductible, or completely nondeductible.

**Basis.** Your basis in traditional IRAs is the total of all your nondeductible contributions to traditional IRAs minus the total of all your nontaxable distributions, adjusted if necessary (see the instructions for line 2 on page 5). Keep track of your basis to figure the nontaxable part of your future distributions.

#### SEP IRAs

A simplified employee pension (SEP) is an employer-sponsored plan under which an employer can make contributions to traditional IRAs for its employees. If you make contributions to that IRA (excluding employer contributions you make if you are self-employed), they are treated as contributions to a traditional IRA and may be deductible or nondeductible. SEP IRA distributions are reported in

the same manner as traditional IRA distributions.

## SIMPLE IRAs

Your participation in your employer's SIMPLE IRA plan does not prevent you from making contributions to a traditional, SEP, or Roth IRA.

## Roth IRAs

A Roth IRA is similar to a traditional IRA, but has the following features.

- Contributions are never deductible.
- Contributions can be made after the owner reaches age 70½.
- No minimum distributions are required during the Roth IRA owner's lifetime.
- Qualified distributions are not includible in income.

**Qualified distribution.** Generally, a qualified distribution is any distribution made:

- On or after age 59½,
- Upon death,
- Due to disability, or
- For qualified first-time homebuyer expenses.

**Exception.** Any distribution made during the 5-year period beginning with the first year for which you made a Roth IRA contribution or conversion is not a qualified distribution, and may be taxable.

**Contributions.** You can contribute to a Roth IRA for 2007 only if your 2007 modified adjusted gross income (AGI) for Roth IRA purposes is less than:

- \$10,000 if married filing separately and you lived with your spouse at any time in 2007,
- \$166,000 if married filing jointly or qualifying widow(er), or
- \$114,000 if single, head of household, or if married filing separately and you did not live with your spouse at any time in 2007.

Use the Maximum Roth IRA Contribution Worksheet below to figure the maximum amount you can contribute to a Roth IRA for 2007. If you are married filing jointly, complete the worksheet separately for you and your spouse.



*If you contributed too much, see Recharacterizations on page 3.*

### Modified AGI for Roth IRA purposes.

First, figure your AGI (Form 1040, line 38; Form 1040A, line 22; or Form 1040NR, line 36). Then, refigure it by:

1. Subtracting the following.
  - a. Roth IRA conversions included on Form 1040, line 15b; Form 1040A, line 11b; or Form 1040NR, line 16b.
  - b. Minimum required distributions from IRAs (for conversions only).
2. Adding the following.

a. IRA deduction from Form 1040, line 32; Form 1040A, line 17; or Form 1040NR, line 31.

b. Student loan interest deduction from Form 1040, line 33; Form 1040A, line 18; or Form 1040NR, line 32.

c. Tuition and fees deduction from Form 1040, line 34, or Form 1040A, line 19.

d. Domestic production activities deduction from Form 1040, line 35, or Form 1040NR, line 33.

e. Exclusion of interest from Form 8815, Exclusion of Interest From Series EE and I U.S. Savings Bonds Issued After 1989.

f. Exclusion of employer-provided adoption benefits from Form 8839, Qualified Adoption Expenses.

g. Foreign earned income exclusion from Form 2555, Foreign Earned Income, or Form 2555-EZ, Foreign Earned Income Exclusion.

h. Foreign housing exclusion or deduction from Form 2555.



*When figuring modified AGI for Roth IRA purposes, you may have to refigure items based on modified AGI, such as taxable social security benefits and passive activity losses allowed under the special allowance for rental real estate activities. See Can You Contribute to a Roth IRA? in Pub. 590 for details.*

**Distributions.** See the instructions for Part III that begin on page 6.

### Maximum Roth IRA Contribution Worksheet (keep for your records)

**Caution:** *If married filing jointly and the combined taxable compensation (defined on this page) for you and your spouse is less than \$8,000 (\$9,000 if one spouse is 50 or older at the end of 2007; \$10,000 if both spouses are 50 or older at the end of 2007), do not use this worksheet. Also, do not use this worksheet if you or your spouse qualify for the catch-up contribution for certain employer bankruptcies. Instead, see Pub. 590 for special rules.*

|    |   |    |       |
|----|---|----|-------|
| 1  | If married filing jointly, enter \$4,000 (\$5,000 if age 50 or older at the end of 2007). All others, enter the <b>smaller</b> of \$4,000 (\$5,000 if age 50 or older at the end of 2007) or your taxable compensation (defined on this page) . . . . . | 1  | _____ |
| 2  | Enter your total contributions to traditional IRAs for 2007 . . . . .   | 2  | _____ |
| 3  | Subtract line 2 from line 1 . . . . .   | 3  | _____ |
| 4  | Enter: \$166,000 if married filing jointly or qualifying widow(er); \$10,000 if married filing separately and you lived with your spouse at any time in 2007. All others, enter \$114,000 . . . . .   | 4  | _____ |
| 5  | Enter your modified AGI for Roth IRA purposes (see this page)   | 5  | _____ |
| 6  | Subtract line 5 from line 4. If zero or less, <b>stop here</b> ; you may not contribute to a Roth IRA for 2007. See <b>Recharacterizations</b> on page 3 if you made Roth IRA contributions for 2007 . . . . .  | 6  | _____ |
| 7  | If line 4 above is \$114,000, enter \$15,000; otherwise, enter \$10,000. If line 6 is more than or equal to line 7, skip lines 8 and 9 and enter the amount from line 3 on line 10 . . . . .  | 7  | _____ |
| 8  | Divide line 6 by line 7 and enter the result as a decimal (rounded to at least 3 places). If the result is 1.000 or more, enter 1.000 . . . . .   | 8  | _____ |
| 9  | Multiply line 1 by line 8. If the result is not a multiple of \$10, increase it to the next multiple of \$10 (for example, increase \$490.30 to \$500). Enter the result, but not less than \$200 . . . . .   | 9  | _____ |
| 10 | <b>Maximum 2007 Roth IRA Contribution.</b> Enter the <b>smaller</b> of line 3 or line 9. See <b>Recharacterizations</b> on page 3 if you contributed more than this amount to Roth IRAs for 2007 . . . . .  | 10 | _____ |

## Overall Contribution Limit for Traditional and Roth IRAs

If you are not married filing jointly, your limit on contributions to traditional and Roth IRAs is the smaller of \$4,000 (\$5,000 if age 50 or older at the end of 2007) or your taxable compensation (see below). If you are married filing jointly, your contribution limit is generally \$4,000 (\$5,000 if age 50 or older at the end of 2007) and your spouse's contribution limit is \$4,000 (\$5,000 if age 50 or older at the end of 2007) as well. But if the combined taxable compensation of both you and your spouse is less than \$8,000 (\$9,000 if one spouse is 50 or older at the end of 2007; \$10,000 if both spouses are 50 or older at the end of 2007), see Pub. 590 for special rules. This limit does not apply to employer contributions to a SEP or SIMPLE IRA.

**Catch-up contributions in certain employer bankruptcies.** If you participated in a 401(k) plan and the employer who maintained the plan filed for bankruptcy in an earlier year, you may be able to contribute up to \$7,000 to your traditional or Roth IRA. For more information, see *Catch-up contributions in certain employer bankruptcies* in Pub. 590.

**Note.** Rollovers, Roth IRA conversions, and repayments of qualified hurricane and reservists distributions do not affect your contribution limit.



*The amount you can contribute to a Roth IRA may also be limited by your modified AGI (see Contributions and the Maximum Roth IRA Contribution Worksheet on page 2).*

Taxable compensation includes the following.

- Wages, salaries, tips, etc. If you received a distribution from a nonqualified deferred compensation plan or nongovernmental section 457 plan that is included in Form W-2, box 1, or in Form 1099-MISC, box 7, do not include that distribution in taxable compensation. The distribution should be shown in (a) Form W-2, box 11, (b) Form W-2, box 12, with code Z, or (c) Form 1099-MISC, box 15b. If it is not, contact your employer for the amount of the distribution.
- Nontaxable combat pay if you were a member of the U.S. Armed Forces.
- Self-employment income. If you are self-employed (a sole proprietor or a partner), taxable 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 made on your behalf to retirement plans and the deduction allowed for one-half of your self-employment tax.
- Alimony and separate maintenance.

See Pub. 590 for details.

## Recharacterizations

Generally, you can recharacterize (correct) an IRA contribution or Roth IRA conversion by making a trustee-to-trustee transfer from one IRA to another type of IRA.

Trustee-to-trustee transfers are made directly between financial institutions or within the same financial institution. You generally must make the transfer by the due date of your return (including extensions) and reflect it on your return. However, if you timely filed your return without making the transfer, you can make the transfer within 6 months of the due date of your return, excluding extensions. If necessary, file an amended return reflecting the transfer (see page 5). Write "Filed pursuant to section 301.9100-2" on the amended return.

**Reporting recharacterizations.** Any recharacterized conversion will be treated as though the conversion had not occurred. Any recharacterized contribution will be treated as having been originally contributed to the second IRA, not the first IRA. The

amount transferred must include related earnings or be reduced by any loss. In most cases, the related earnings that you must transfer are figured by your IRA trustee or custodian. If you need to figure the related earnings, see *How Do You Recharacterize a Contribution* in Pub. 590. Any earnings or loss that occurred in the first IRA will be treated as having occurred in the second IRA. You cannot deduct any loss that occurred while the funds were in the first IRA. Also, you cannot take a deduction for a contribution to a traditional IRA if the amount is later recharacterized. See below for how to report the three different types of recharacterizations, including the statement that must be attached to your return explaining the recharacterization.

1. You converted an amount from a traditional, SEP, or SIMPLE IRA to a Roth IRA in 2007 and later recharacterized all or part of the amount back to a traditional, SEP, or SIMPLE IRA. If you only recharacterized part of the amount converted, report the amount not recharacterized on Form 8606. If you recharacterized the entire amount, do not report the recharacterization on Form 8606. In either case, attach a statement to your return explaining the recharacterization and include the amount converted from the traditional, SEP, or SIMPLE IRA in the total on Form 1040, line 15a; Form 1040A, line 11a; or Form 1040NR, line 16a. If the recharacterization occurred in 2007, also include the amount transferred back from the Roth IRA on that line. If the recharacterization occurred in 2008, report the amount transferred only in the attached statement, and not on your 2007 or 2008 tax return (a 2008 Form 1099-R should be sent to you by January 31, 2009, stating that you made a recharacterization of an amount converted in the prior year).

**Example.** You are married filing jointly and converted \$20,000 from your traditional IRA to a new Roth IRA on May 20, 2007. On April 7, 2008, you determine that your 2007 modified AGI for Roth IRA purposes will exceed \$100,000, and you are not allowed to make a Roth IRA conversion. The value of the Roth IRA on that date is \$19,000. You recharacterize the conversion by transferring that entire amount to a traditional IRA in a trustee-to-trustee transfer. You report \$20,000 on Form 1040, line 15a. You do not include the \$19,000 on line 15a because it did not occur in 2007 (you also do not report that amount on your 2008 return because it does not apply to the 2008 tax year). You attach a statement to Form 1040 explaining that (a) you made a conversion of \$20,000 from a traditional IRA on May 20, 2007, (b)

you recharacterized the entire amount, which was then valued at \$19,000, back to a traditional IRA on April 7, 2008, and (c) you recharacterized because your 2007 modified AGI for Roth IRA purposes exceeded \$100,000.

2. You made a contribution to a traditional IRA and later recharacterized part or all of it to a Roth IRA. If you recharacterized only part of the contribution, report the nondeductible traditional IRA portion of the remaining contribution, if any, on Form 8606, Part I. If you recharacterized the entire contribution, do not report the contribution on Form 8606. In either case, attach a statement to your return explaining the recharacterization. If the recharacterization occurred in 2007, include the amount transferred from the traditional IRA on Form 1040, line 15a; Form 1040A, line 11a; or Form 1040NR, line 16a. If the recharacterization occurred in 2008, report the amount transferred only in the attached statement.

**Example.** You are single, covered by a retirement plan, and you contributed \$4,000 to a new traditional IRA on May 27, 2007. On February 24, 2008, you determine that your 2007 modified AGI will limit your traditional IRA deduction to \$1,000. The value of your traditional IRA on that date is \$4,400. You decide to recharacterize \$3,000 of the traditional IRA contribution as a Roth IRA contribution, and have \$3,300 (\$3,000 contribution plus \$300 related earnings) transferred from your traditional IRA to a Roth IRA in a trustee-to-trustee transfer. You deduct the \$1,000 traditional IRA contribution on Form 1040. You are not required to file Form 8606, but you must attach a statement to your return explaining the recharacterization. The statement indicates that you contributed \$4,000 to a traditional IRA on May 27, 2007; recharacterized \$3,000 of that contribution on February 24, 2008, by transferring \$3,000 plus \$300 of related earnings from your traditional IRA to a Roth IRA in a trustee-to-trustee transfer; and that all \$1,000 of the remaining traditional IRA contribution is deducted on Form 1040. You do not report the \$3,300 distribution from your traditional IRA on your 2007 Form 1040 because the distribution occurred in 2008. You do not report the distribution on your 2008 Form 1040 because the recharacterization related to 2007 and was explained in an attachment to your 2007 return.

3. You made a contribution to a Roth IRA and later recharacterized part or all of it to a traditional IRA. Report the nondeductible traditional IRA portion, if any, on Form 8606, Part I. If you did not recharacterize the entire

contribution, do not report the remaining Roth IRA portion of the contribution on Form 8606. Attach a statement to your return explaining the recharacterization. If the recharacterization occurred in 2007, include the amount transferred from the Roth IRA on Form 1040, line 15a; Form 1040A, line 11a; or Form 1040NR, line 16a. If the recharacterization occurred in 2008, report the amount transferred only in the attached statement, and not on your 2007 or 2008 tax return.

**Example.** You are single and contributed \$4,000 to a new Roth IRA on June 14, 2007. On December 27, 2007, you determine that your 2007 modified AGI will allow a full traditional IRA deduction. You decide to recharacterize the Roth IRA contribution as a traditional IRA contribution and have \$4,200, the balance in the Roth IRA account (\$4,000 contribution plus \$200 related earnings), transferred from your Roth IRA to a traditional IRA in a trustee-to-trustee transfer. You deduct the \$4,000 traditional IRA contribution on Form 1040. You are not required to file Form 8606, but you must attach a statement to your return explaining the recharacterization. The statement indicates that you contributed \$4,000 to a new Roth IRA on June 14, 2007; recharacterized that contribution on December 27, 2007, by transferring \$4,200, the balance in the Roth IRA, to a traditional IRA in a trustee-to-trustee transfer; and that \$4,000 of the traditional IRA contribution is deducted on Form 1040. You include the \$4,200 distribution on your 2007 Form 1040, line 15a.

## Return of IRA Contributions

If, in 2007, you made traditional IRA contributions or Roth IRA contributions for 2007 and you had those contributions returned to you with any related earnings (or less any loss) by the due date (including extensions) of your 2007 tax return, the returned contributions are treated as if they were never contributed. Do not report the contribution or distribution on Form 8606 or take a deduction for the contribution. However, you must report the distribution and any related earnings on your 2007 Form 1040, lines 15a and 15b; Form 1040A, lines 11a and 11b; or Form 1040NR, lines 16a and 16b. Attach a statement explaining the distribution. You cannot deduct any loss that occurred (see Pub. 590 for an exception if you withdrew the entire amount in all your traditional or Roth IRAs). Also, if you were under age 59½ at the time of a distribution with related earnings, you generally are

subject to the additional 10% tax on early distributions (see Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts).

If you timely filed your 2007 tax return without withdrawing a contribution that you made in 2007, you can still have the contribution returned to you within 6 months of the due date of your 2007 tax return, excluding extensions. If you do, file an amended return with "Filed pursuant to section 301.9100-2" written at the top. Report any related earnings on the amended return and include an explanation of the withdrawal. Make any other necessary changes on the amended return (for example, if you reported the contributions as excess contributions on your original return, include an amended Form 5329 reflecting that the withdrawn contributions are no longer treated as having been contributed).

In most cases, the related earnings that you must withdraw are figured by your IRA trustee or custodian. If you need to figure the related earnings on IRA contributions that were returned to you, see *Contributions Returned Before Due Date of Return* in Pub. 590. If you made a contribution or distribution while the IRA held the returned contribution, see Pub. 590.

If you made a contribution for 2006 and you had it returned to you in 2007 as described above, do not report the distribution on your 2007 tax return. Instead, report it on your 2006 original or amended return in the manner described above.

**Example.** On May 31, 2007, you contributed \$4,000 to your traditional IRA. The value of the IRA was \$18,000 prior to the contribution. On December 29, 2007, when you are age 57 and the value of the IRA is \$23,600, you realize you cannot make the entire contribution because your taxable compensation for the year will be only \$3,000. You decide to have \$1,000 of the contribution returned to you and withdraw \$1,076 from your IRA (\$1,000 contribution plus \$76 earnings). You did not make any other withdrawals or contributions. You are not required to file Form 8606. You deduct the \$3,000 remaining contribution on Form 1040. You include \$1,076 on Form 1040, line 15a, and \$76 on line 15b. You attach a statement to your tax return explaining the distribution. Because you properly removed the excess contribution with the related earnings by the due date of your tax return, you are not subject to the additional 6% tax on excess contributions. However, because you were under age 59½ at the time of the distribution, the \$76 of earnings is subject to the additional 10% tax on

early distributions. You include \$7.60 on Form 1040, line 60.

## Return of Excess Traditional IRA Contributions

The return (distribution) in 2007 of excess traditional IRA contributions for years prior to 2007 is not taxable if all three of the following apply.

1. The distribution was made after the due date, including extensions, of your tax return for the year for which the contribution was made (if the distribution was made earlier, see *Return of IRA Contributions* on this page).
2. The total contributions (excluding rollovers and conversions) to your traditional and SEP IRAs for the year for which the excess contribution was made did not exceed:
  - a. \$4,000 (\$5,000 if age 50 or older at the end of the year) for 2006,
  - b. \$4,000 (\$4,500 if age 50 or older at the end of the year) for 2005,
  - c. \$3,000 (\$3,500 if age 50 or older at the end of the year) for years after 2001 and before 2005,
  - d. \$2,000 for years after 1996 and before 2002, or
  - e. \$2,250 for years before 1997.

If your total IRA contributions for the year included employer contributions to a SEP IRA, increase the \$4,000 (\$5,000 or \$4,500, if applicable), \$3,000 (\$3,500, if applicable), \$2,000, or \$2,250 by the smaller of the employer contributions or \$44,000 (\$42,000 for 2005, \$41,000 for 2004, \$40,000 for 2003 and 2002, \$35,000 for 2001, or \$30,000 for years before 2001).

3. No deduction was allowable (without regard to the modified AGI limitation) or taken for the excess contributions.

Include the total amount distributed on Form 1040, line 15a; Form 1040A, line 11a; or Form 1040NR, line 16a; and attach a statement to your return explaining the distribution. See the example below.

If you meet these conditions and are otherwise required to file Form 8606:

- Do not take into account the amount of the withdrawn contributions in figuring line 2, and
- Do not include the amount of the withdrawn contributions on line 7.

**Example.** You are single, you retired in 2004, and you had no taxable compensation after 2004. However, you made traditional IRA contributions (that you did not deduct) of \$3,000 in 2005 and \$4,000 in 2006. In November 2007, a tax practitioner informed you that you had made excess contributions for

those years because you had no taxable compensation. You withdrew the \$7,000 and filed amended returns for 2005 and 2006 reflecting the additional 6% tax on excess contributions on Form 5329. You include the \$7,000 distribution on your 2007 Form 1040, line 15a, enter -0- on line 15b, and attach a statement to your return explaining the distribution, including the fact that you filed amended returns for 2005 and 2006 and paid the additional 6% tax on the excess contributions for those years. The statement indicates that the distribution is not taxable because (a) it was made after the due dates of your 2005 and 2006 tax returns, including extensions, (b) your total IRA contributions did not exceed \$4,000 (\$4,500 if age 50 or older at the end of 2005) for 2005 or \$4,000 (\$5,000 if age 50 or older at the end of 2006) for 2006, and (c) you did not take a deduction for the contributions, and no deduction was allowable because you did not have any taxable compensation for those years. The statement also indicates that the distribution reduced your excess contributions to -0-, as reflected on your 2007 Form 5329 and it indicates your adjusted basis in nondeductible contributions.

## Amending Form 8606

After you file your return, you can change a nondeductible contribution to a traditional IRA to a deductible contribution or vice versa. You also may be able to make a recharacterization (see page 3). If necessary, complete a new Form 8606 showing the revised information and file it with Form 1040X, Amended U.S. Individual Income Tax Return.

## Penalty for Not Filing

If you are required to file Form 8606 to report a nondeductible contribution to a traditional IRA for 2007, but do not do so, you must pay a \$50 penalty, unless you can show reasonable cause.

## Overstatement Penalty

If you overstate your nondeductible contributions, you must pay a \$100 penalty, unless you can show reasonable cause.

## What Records Must I Keep?

To verify the nontaxable part of distributions from your IRAs, including Roth IRAs, keep a copy of the following forms and records until all distributions are made.

- Page 1 of Forms 1040 (or Forms 1040A, 1040NR, or 1040-T) filed for each year you made a nondeductible contribution to a traditional IRA.

- Forms 8606 and any supporting statements, attachments, and worksheets for all applicable years.
- Forms 5498 or similar statements you received each year showing contributions you made to a traditional IRA or Roth IRA.
- Forms 5498 or similar statements you received showing the value of your traditional IRAs for each year you received a distribution.
- Forms 1099-R or W-2P you received for each year you received a distribution.

**Note.** Forms 1040-T and W-2P are forms that were used in prior years.

## Specific Instructions

**Name and social security number (SSN).** If you file a joint return, enter only the name and SSN of the spouse whose information is being reported on Form 8606. If both you and your spouse are required to file Form 8606, file a separate Form 8606 for each of you.

## Part I—Nondeductible Contributions to Traditional IRAs and Distributions From Traditional, SEP, and SIMPLE IRAs

### Line 1

If you used the IRA Deduction Worksheet in the Form 1040 or 1040A instructions, subtract line 12 (line 10 for Form 1040A) of the worksheet (or the amount you chose to deduct on Form 1040, line 32, or Form 1040A, line 17, if less) from the smaller of line 10 or line 11 (line 8 or line 9 for Form 1040A) of the worksheet. Enter the result on line 1 of Form 8606. You cannot deduct the amount included on line 1.

If you used the worksheet Figuring Your Reduced IRA Deduction for 2007 in Pub. 590, enter on line 1 of Form 8606 any nondeductible contributions from the appropriate lines of that worksheet.

If you did not have any deductible contributions, you can make nondeductible contributions up to your contribution limit. Enter on line 1 of Form 8606 your nondeductible contributions.

Include on line 1 any repayment of a qualified reservist distribution. Also, include any repayment of a qualified hurricane distribution that is attributable to previously nondeductible contributions.

Do not include on line 1 contributions that you had returned to you with the related earnings (or less any loss). See page 4.

### Line 2

If this is the first year you are required to file Form 8606, enter -0-. Otherwise, use the chart in the next column to find the amount to enter on line 2.

However, you may need to enter an amount other than -0- or adjust the amount from the chart if your basis changed because of any of the following.

- You had a return of excess traditional IRA contributions (see page 4).
- Incident to divorce, you transferred or received part or all of a traditional IRA (see the last bulleted item under *Line 7* on page 3).
- You rolled over any nontaxable portion of your qualified employer plan to a traditional or SEP IRA. Include the nontaxable portion on line 2.

| IF the last Form 8606 you filed was for... | THEN enter on line 2...                                      |
|--|--|
| 2006, 2005, 2004, 2003, 2002, or 2001      | The amount from line 14 of that Form 8606                    |
| A year after 1992 and before 2001          | The amount from line 12 of that Form 8606                    |
| A year after 1988 and before 1993          | The amount from line 14 of that Form 8606                    |
| 1988                                       | The total of the amounts on lines 7 and 16 of that Form 8606 |
| 1987                                       | The total of the amounts on lines 4 and 13 of that Form 8606 |

### Line 4

If you made contributions to traditional IRAs for 2007 in 2007 and 2008 and you have both deductible and nondeductible contributions, you can choose to treat the contributions made in 2007 first as nondeductible contributions and then as deductible contributions, or vice versa. But the amount on line 4 cannot be less than the excess, if any, of the amount on line 1 over the contributions you actually made in 2007.

**Example.** You made contributions for 2007 of \$2,000 in May 2007 and \$2,000 in January 2008, of which \$3,000 are deductible and \$1,000 are nondeductible. You choose \$1,000 of your contribution in 2007 to be nondeductible. You enter the \$1,000 on

line 1, but not line 4, and it becomes part of your basis for 2007.

Although the contributions to traditional IRAs for 2007 that you made from January 1, 2008, through April 15, 2008, can be treated as nondeductible, they are not included in figuring the nontaxable part of any distributions you received in 2007.

## Line 6


Enter the total value of all your traditional, SEP, and SIMPLE IRAs as of December 31, 2007, plus any outstanding rollovers. A statement should be sent to you by January 31, 2008, showing the value of each IRA on December 31, 2007. However, if you recharacterized any amounts, enter on line 6 the total value taking into account all recharacterizations, including recharacterizations made after December 31, 2007.

For line 6, a rollover is a tax-free distribution from one traditional, SEP, or SIMPLE IRA that is contributed to another traditional, SEP, or SIMPLE IRA. The rollover must be completed within 60 days of receiving the distribution from the first IRA. An outstanding rollover is any amount distributed after November 1, 2007, that was rolled over in 2008, but within the 60-day rollover period.

The IRS may waive the 60-day requirement if failing to waive it would be against equity or good conscience, such as situations where a casualty, disaster, or other events beyond your reasonable control prevented you from meeting the 60-day requirement. Also, the 60-day period may be extended if you had a frozen deposit. See Pub. 590 for details.

**Note.** Do not include a rollover from a traditional or SEP IRA to a qualified employer plan even if it was an outstanding rollover.

## Line 7

 *If you received a distribution in 2007 from a traditional, SEP, or SIMPLE IRA, and you also made contributions for 2007 to a traditional IRA that may not be fully deductible because of the income limits, you must make a special computation before completing the rest of this form. For details, including how to complete Form 8606, see Are Distributions Taxable? in Chapter 1 of Pub. 590.*

Do not include any of the following on line 7.

- Distributions that you converted to a Roth IRA.
- Recharacterizations.
- Distributions that you rolled over by December 31, 2007, and any

outstanding rollovers included on line 6.

- Distributions you rolled over to a qualified employer plan.
- A one-time distribution to fund an HSA. For details, see Form 8889 and its instructions.
- Qualified charitable distributions. For details, see the instructions for Form 1040, lines 15a and 15b; Form 1040A, lines 11a and 11b; or Form 1040NR, lines 16a and 16b.
- Distributions that are treated as a return of contributions under *Return of IRA Contributions* on page 4.
- Distributions that are treated as a return of excess contributions under *Return of Excess Traditional IRA Contributions* on page 4.
- Distributions of excess contributions due to incorrect rollover information. If an excess contribution in your traditional IRA is the result of a rollover from a qualified retirement plan and the excess occurred because the information the plan was required to give you was incorrect, the distribution of the excess contribution is not taxable. Attach a statement to your return explaining the distribution and include the amount of the distribution on Form 1040, line 15a; Form 1040A, line 11a; or Form 1040NR, line 16a. See Pub. 590 for more details.
- Distributions that are incident to divorce. The transfer of part or all of your traditional, SEP, or SIMPLE IRA to your spouse under a divorce or separation agreement is not taxable to you or your spouse. If this transfer results in a change in the basis of the traditional IRA of either spouse, both spouses must file Form 8606 and show the increase or decrease in the amount of basis on line 2. Attach a statement explaining this adjustment. Include in the statement the character of the amounts in the traditional IRA, such as the amount attributable to nondeductible contributions. Also, include the name and social security number of the other spouse.

## Line 8

If, in 2007, you converted any amounts from traditional, SEP, or SIMPLE IRAs to a Roth IRA, enter on line 8 the net amount you converted. To figure that amount, subtract from the total amount converted in 2007 any portion that you recharacterized back to traditional, SEP, or SIMPLE IRAs in 2007 or 2008 (see *Recharacterizations* that begins on page 3). Do not take into account related earnings that were transferred with the recharacterized amount or any loss that occurred while the amount was in the Roth IRA. See item 1 under *Reporting recharacterizations* on page 3 for details.

## Line 15

If you were under age 59½ at the time you received distributions from your traditional, SEP, or SIMPLE IRA, there generally is an additional 10% tax on the portion of the distribution that is included in income (25% for a distribution from a SIMPLE IRA during the first 2 years). See the Instructions for Form 1040, line 60, or the Instructions for Form 1040NR, line 55.

## Part II—2007 Conversions From Traditional, SEP, or SIMPLE IRAs to Roth IRAs

Complete Part II if you converted part or all of your traditional, SEP, or SIMPLE IRAs to a Roth IRA in 2007, excluding any portion you recharacterized. See item 1 under *Reporting recharacterizations* on page 3 for details.

**Limit on number of conversions.** If you converted an amount from a traditional, SEP, or SIMPLE IRA to a Roth IRA in 2007 and then recharacterized the amount back to a traditional, SEP, or SIMPLE IRA, you cannot reconvert that amount until the later of January 1, 2008, or 30 days after the recharacterization. See Pub. 590 for details.



*You cannot convert any amount to Roth IRAs in 2007 if (a) your modified AGI for Roth IRA purposes (see page 2) is more than \$100,000, or (b) your filing status is married filing separately and you lived with your spouse at any time in 2007. If you erroneously made a conversion, you must recharacterize the converted amount. See Recharacterizations that begins on page 3.*

## Line 16

If you did not complete line 8, see the instructions for that line. Then, enter on line 16 the amount you would have entered on line 8 had you completed it.

## Line 17

If you did not complete line 11, enter on line 17 the amount from line 2 (or the amount you would have entered on line 2 if you had completed that line) plus any contributions included on line 1 that you made before the conversion.

## Part III—Distributions From Roth IRAs

Complete Part III to figure the taxable part, if any, of your 2007 Roth IRA distributions.



**Basis in Regular Roth IRA Contributions—Line 22**

| <b>IF the most recent year prior to 2007 in which you took a Roth IRA distribution* was...</b>  | <b>THEN enter on Form 8606, line 22, this amount...</b>                      | <b>PLUS the total of all your regular contributions** to Roth IRAs for...</b> |
|---|--|---|
| 2006<br>(you had an amount on your Form 8606, line 19)  | The excess of your 2006 Form 8606, line 22, over line 19 of that Form 8606.  | 2007  |
| 2005<br>(you had an amount on your Form 8606, line 19)  | The excess of your 2005 Form 8606, line 22, over line 19 of that Form 8606.  | 2006 and 2007   |
| 2004<br>(you had an amount on your Form 8606, line 19)  | The excess of your 2004 Form 8606, line 22, over line 19 of that Form 8606.  | 2005 through 2007   |
| 2003<br>(you had an amount on your 2003 Form 8606, line 19)   | The excess of your 2003 Form 8606, line 20, over line 19 of that Form 8606.  | 2004 through 2007   |
| 2002<br>(you had an amount on your 2002 Form 8606, line 19)   | The excess of your 2002 Form 8606, line 20, over line 19 of that Form 8606.  | 2003 through 2007   |
| 2001<br>(you had an amount on your 2001 Form 8606, line 19)   | The excess of your 2001 Form 8606, line 20, over line 19 of that Form 8606.  | 2002 through 2007   |
| 2000<br>(you had an amount on your 2000 Form 8606, line 17)   | The excess of your 2000 Form 8606, line 18d, over line 17 of that Form 8606. | 2001 through 2007   |
| 1999<br>(you had an amount on your 1999 Form 8606, line 17)   | The excess of your 1999 Form 8606, line 18d, over line 17 of that Form 8606. | 2000 through 2007   |
| 1998<br>(you had an amount on your 1998 Form 8606, line 18)   | The excess of your 1998 Form 8606, line 19c, over line 18 of that Form 8606. | 1999 through 2007   |
| Did not take a Roth IRA distribution* prior to 2007   | \$0  | 1998 through 2007   |
| *Excluding rollovers, recharacterizations, and contributions that you had returned to you.  |  |   |
| **Excluding rollovers, conversions, Roth IRA contributions that were recharacterized, and any contributions that you had returned to you. |  |   |

**Line 19**

Do not include on line 19 any of the following.

- Distributions that you rolled over, including distributions made in 2007 and rolled over after December 31, 2007 (outstanding rollovers).
- Recharacterizations.
- Distributions that are a return of contributions under *Return of IRA Contributions* on page 4.
- Distributions made on or after age 59½ if you made a contribution (including a conversion) for 2002 or an earlier year.
- A one-time distribution to fund an HSA. For details, see Form 8889 and its instructions.
- Qualified charitable distributions. For details, see the instructions for Form 1040, lines 15a and 15b; Form 1040A, lines 11a and 11b; or Form 1040NR, lines 16a and 16b.

- Distributions made upon death or due to disability if you made a contribution (including a conversion) for 2002 or an earlier year.
- Distributions that are incident to divorce. The transfer of part or all of your Roth IRA to your spouse under a divorce or separation agreement is not taxable to you or your spouse.

If, after considering the items above, you do not have an amount to enter on line 19, do not complete Part III; your Roth IRA distribution(s) is not taxable. Instead, include your total Roth IRA distribution(s) on Form 1040, line 15a; Form 1040A, line 11a; or Form 1040NR, line 16a.

**Line 20**

If you had a qualified first-time homebuyer distribution from your Roth

IRA and you made a contribution (including a conversion) to a Roth IRA for 2002 or an earlier year, enter the amount of your qualified expenses on line 20, but do not enter more than \$10,000.

**Line 22**

Figure the amount to enter on line 22 as follows.

- If you did not take a Roth IRA distribution before 2007 (other than an amount rolled over or recharacterized or a returned contribution), enter on line 22 the total of all your regular contributions to Roth IRAs for 1998 through 2007 (excluding rollovers from other Roth IRAs and any contributions that you had returned to you), adjusted for any recharacterizations.
- If you did take such a distribution before 2007, use the chart on this page to figure the amount to enter.
- Increase the amount on line 22 by any amount rolled in from a designated Roth account that is treated as investment in the contract.
- Increase or decrease the amount on line 22 by any basis transferred or received incident to divorce. Also attach a statement similar to the one explained in the last bulleted item under *Line 7* on page 6.

**Line 23**

Generally, there is an additional 10% tax on 2007 distributions from a Roth IRA that are shown on line 23. The additional tax is figured on Form 5329, Part I. See the instructions for Form 5329, line 1, for details and exceptions.

**Line 24**

Figure the amount to enter on line 24 as follows.

- If you have never made a Roth IRA conversion, enter -0- on line 24.
- If you took a Roth IRA distribution (other than an amount rolled over or recharacterized or a returned contribution) before 2007 in excess of your basis in regular Roth IRA contributions, use the chart on page 8 to figure the amount to enter on line 24.
- If you did not take such a distribution before 2007, enter on line 24 the total of all your conversions to Roth IRAs (other than amounts recharacterized). These amounts are shown on line 14c of your 1998, 1999, and 2000 Forms 8606 and line 16 of your 2001 through 2007 Forms 8606.
- Increase or decrease the amount on line 24 by any basis transferred or received incident to divorce. Also attach a statement similar to the one explained in the last bulleted item under *Line 7* on page 6.

**Basis in Roth IRA Conversions—Line 24**

| <b>IF the most recent year prior to 2007 in which you had a distribution* in excess of your basis in contributions was...</b> | <b>THEN enter on Form 8606, line 24, this amount...</b>                                | <b>PLUS the sum of the amounts on the following lines...</b>                                      |
|---|--|---|
| 2006<br>(your 2006 Form 8606, line 22, was less than line 19 of that Form 8606)   | The excess, if any, of your 2006 Form 8606, line 24, over line 23** of that Form 8606. | Line 16 of your 2007 Form 8606  |
| 2005<br>(your 2005 Form 8606, line 22, was less than line 19 of that Form 8606)   | The excess, if any, of your 2005 Form 8606, line 24, over line 23** of that Form 8606. | Line 16 of your 2006 and 2007 Forms 8606  |
| 2004<br>(your 2004 Form 8606, line 22, was less than line 19 of that Form 8606)   | The excess, if any, of your 2004 Form 8606, line 24, over line 23** of that Form 8606. | Line 16 of your 2005 through 2007 Forms 8606  |
| 2003<br>(you had an amount on your 2003 Form 8606, line 21)   | The excess, if any, of your 2003 Form 8606, line 22, over line 21 of that Form 8606.   | Line 16 of your 2004 through 2007 Forms 8606  |
| 2002<br>(you had an amount on your 2002 Form 8606, line 21)   | The excess, if any, of your 2002 Form 8606, line 22, over line 21 of that Form 8606.   | Line 16 of your 2003 through 2007 Forms 8606  |
| 2001<br>(you had an amount on your 2001 Form 8606, line 21)   | The excess, if any, of your 2001 Form 8606, line 22, over line 21 of that Form 8606.   | Line 16 of your 2002 through 2007 Forms 8606  |
| 2000<br>(you had an amount on your 2000 Form 8606, line 19)   | The excess, if any, of your 2000 Form 8606, line 25, over line 19 of that Form 8606.   | Line 16 of your 2001 through 2007 Forms 8606  |
| 1999<br>(you had an amount on your 1999 Form 8606, line 19)   | The excess, if any, of your 1999 Form 8606, line 25, over line 19 of that Form 8606.   | Line 14c of your 2000 Form 8606 and line 16 of your 2001 through 2007 Forms 8606                  |
| 1998<br>(you had an amount on your 1998 Form 8606, line 20)   | The excess, if any, of your 1998 Form 8606, line 14c, over line 20 of that Form 8606.  | Line 14c of your 1999 and 2000 Forms 8606 and line 16 of your 2001 through 2007 Forms 8606        |
| Did not have such a distribution in excess of your basis in contributions   | The amount from your 2007 Form 8606, line 16.  | Line 14c of your 1998, 1999, and 2000 Forms 8606 and line 16 of your 2001 through 2006 Forms 8606 |
| *Excluding rollovers, recharacterizations, and contributions that you had returned to you.                                    |  |   |
| **Refigure line 23 without taking into account any amount entered on Form 8606, line 20.                                      |  |   |

**Privacy Act and Paperwork**

**Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United States. We need this information to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information if you made certain contributions or received certain distributions from qualified plans, including IRAs, and other tax-favored accounts. Our legal right to ask for the information requested on this form is sections 6001, 6011, 6012(a), and 6109 and their regulations. The reason we need your social security number is to secure proper identification in order to gain access to the tax information in our files to properly process the form.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103. However, we may give the information to the Department of Justice for civil and criminal litigation, and to cities, states, and the District of Columbia to carry out their tax laws. We may also disclose this information to other countries under a tax treaty, to federal and state agencies to enforce federal nontax criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism.

The average time and expenses required to complete and file this form will vary depending on individual circumstances. For the estimated averages, see the instructions for your income tax return.

If you have suggestions for making this form simpler, we would be happy to hear from you. See the instructions for your income tax return.