

**Nondeductible IRA Contributions,
IRA Basis, and Nontaxable IRA Distributions**

Department of the Treasury
Internal Revenue Service (O)

▶ **Please see Recordkeeping Requirements on back.**
▶ **Attach to Form 1040, Form 1040A, or Form 1040NR.**

Purpose of Form

The Tax Reform Act of 1986 allows you to make nondeductible contributions to your IRA. You may wish to do this, for example, if all or part of your contributions are no longer deductible because of the new income limitations for IRAs.

If you choose to make nondeductible contributions to your IRA, you must report the amount of the contributions that you choose to be nondeductible. Line 3 of Form

8606 is used for this purpose. First figure the amount of your deductible contributions using the Instructions for Form 1040 or Form 1040A, whichever applies to you. You should then report on Form 8606 the amount you choose to be nondeductible.

When you receive distributions (withdrawals) from your IRA, the part attributable to nondeductible contributions will not be taxable. Form 8606 is used to figure an amount called "basis" (which

includes the part of your IRA that is from nondeductible contributions). The form is also used to figure the nontaxable part of any distributions you receive. If you received any distributions in 1987, line 12 will show the amount that is not taxable.

Line 13 of the form reflects the "basis" in your IRA as of 12/31/87. This amount will be used on Form 8606 in future years if you make nondeductible IRA contributions or receive distributions in those years.

Name (If married, file a separate Form 8606 for each spouse. See instructions.)

Your social security number

Present home address (number and street) (or P.O. Box number if mail is not delivered to street address)

City, town or post office, state, and ZIP code

1 Enter name of trustee and value of all your IRAs (attach list if more than three)— Name of trustee (bank, credit union, mutual fund, etc.)		Value on 12/31/87	
a		1a	
b		1b	
c		1c	
2	Total value of all IRAs. Add lines 1a through 1c	2	
3	Enter your IRA contributions for 1987 that you choose to be nondeductible. (Include those made during 1/1/88–4/15/88 that were for 1987.) (See instructions.)	3	
4	Enter only those contributions included on line 3 that were made during 1/1/88–4/15/88. (See instructions.)	4	
5	Subtract line 4 from line 3 and enter the result. (The result may be zero if all of your nondeductible contributions for 1987 were made in 1988 by 4/15/88. Please continue.)	5	
6	Adjustments. (See instructions.)	6	
7	Combine lines 5 and 6 and enter the result. If you did not receive any IRA distributions (withdrawals) in 1987, skip lines 8 through 12 and enter the amount (or zero, if applicable) from line 7 on line 13	7	
8	Enter the value of all your IRAs as of 12/31/87 (from line 2). Include any outstanding rollovers. (See instructions.)	8	
9	Enter total IRA distributions received during 1987. Do not include amounts rolled over before 1/1/88. (See instructions.)	9	
10	Add lines 8 and 9 and enter the total	10	
11	Divide line 7 by line 10 and enter the result as a decimal (to two places)	11	
12	Multiply line 9 by the decimal amount on line 11 and enter the result. This is the amount of your nontaxable distributions for 1987. (See instructions.) ▶	12	
13	Subtract line 12 from line 7 and enter the result. This is the basis in your IRA(s) as of 12/31/87 ▶	13	

Please Sign Here

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

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers 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.

Who Must File.—You must file Form 8606 for 1987 if you make nondeductible contributions to your IRA(s). If you and your spouse each choose to make nondeductible IRA contributions, you each must file a Form 8606.
Report your deductible contributions on Form 1040, Form 1040A, or Form 1040NR and not on Form 8606.

When and Where To File.—Attach Form 8606 to your 1987 Form 1040, Form 1040A, or Form 1040NR.
If you do not have to file an income tax return because you do not meet the requirements for filing a return, you still have to file a Form 8606 with the Internal Revenue Service at the time and place you would normally be required to file Form 1040, Form 1040A, or Form 1040NR.

Name and Social Security Number.—

Enter your name and social security number on Form 8606. Your address and signature are required only if you are not filing Form 8606 with your income tax return (Form 1040, Form 1040A, or Form 1040NR).

Note: If you file a joint return on Form 1040 or Form 1040A, show the name and social security number of the spouse whose IRA information is shown.

Recordkeeping Requirements.—To be able 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):

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

Additional Information.—For more information on nondeductible contributions, get **Publication 590**, Individual Retirement Arrangements (IRAs).

Specific Instructions

We have provided instructions for many of the lines on the form except those that are self-explanatory.

Line 1

Separately list all of your IRAs and their values at the end of the year, regardless of whether you make deductible or nondeductible contributions to them. For married couples, each spouse must list his or her own IRA(s) on a separate Form 8606.

If you have more than three IRAs, list them on a separate attachment and follow the format of line 1. Include on line 2 the total value of all of your IRAs.

You should receive a statement by February 1, 1988, for each IRA account showing the value on December 31, 1987.

Line 3

Covered by a Retirement Plan at Work.—If you were covered by a retirement plan at work and used Worksheet 2 in the Instructions for Form 1040 or Form 1040A, you should enter on line 3 of Form 8606 any nondeductible contributions shown on line 10 of the worksheet in the Form 1040 Instructions or line 8 of the Form 1040A Instructions. If you made any nondeductible contributions to an IRA for your nonworking spouse, you should complete a separate Form 8606 for your spouse and enter on line 3 of your spouse's Form 8606 any nondeductible contributions for your nonworking spouse from the appropriate lines of Worksheet 2.

If you were covered by a retirement plan at work but you used Worksheet 1 because your income was \$25,000 or less (\$40,000 or less if you are married filing a joint return), follow the instructions below under "Not Covered by a Retirement Plan at Work."

You may also choose to treat any part of deductible contributions as nondeductible. To do this, include on line 3 of Form 8606 any deductible contributions that you are treating as nondeductible.

Note: You cannot take a deduction for any part of the deductible contributions you are treating as nondeductible.

If none of your contributions are deductible and you did not use Worksheet 1 or 2 in the Form 1040 or 1040A Instructions, you may still choose to make a nondeductible contribution up to a maximum of \$2,000 (but not more than your earned income). Enter the amount of your contributions that you are treating as nondeductible on line 3 of Form 8606.

If contributions were also made to an IRA for your nonworking spouse and none of the contributions are deductible, you may still make nondeductible contributions up to a maximum of \$2,250 (but not more than your earned income). Enter on line 3 of your Form 8606 the total nondeductible contributions that you are making to your IRA. Enter the balance on line 3 of your nonworking spouse's Form 8606. You cannot make more than \$2,000 to either your or your spouse's IRA. Also, the total of the two amounts cannot be more than \$2,250 and not more than your earned income.

Not Covered by a Retirement Plan at Work.—If you were not covered by a retirement plan at work or were covered, but had income of \$25,000 or less (\$40,000 or less if married filing a joint return), complete Worksheet 1 in the Instructions for Form 1040 or Form 1040A. The amount shown on line 3 of the worksheet is the amount of your contributions that you may deduct. However, you may choose to make all or part of that amount as nondeductible. Enter on line 3 of your Form 8606 the difference between the amount you are deducting and the amount shown on line 3 of Worksheet 1.

If contributions were made to an IRA for your nonworking spouse, the amount shown on line 8 of Worksheet 1 is the amount of the allowable deduction for your nonworking spouse's IRA. However, you can treat all or part of that amount as nondeductible. Enter on line 3 of your nonworking spouse's Form 8606 the difference between the amount that is deducted for your nonworking spouse and the amount on line 8 of Worksheet 1.

Line 4

If you made contributions both in 1987 and 1988 that are for 1987, you may choose to apply the contributions made in 1987 first to nondeductible contributions and then to deductible contributions, or vice versa. However, you may not apply to nondeductible contributions more than the amount actually made in 1987.

For example, assume you make contributions of \$1,000 in 1987, and \$1,000 in 1988. Assume further that \$1,500 of your contributions are deductible and \$500 are nondeductible. You choose \$500 of your contribution in 1987 to be nondeductible. In this case, the \$500 would be entered on line 3 instead of line 4 and would become part of your basis for 1987. Otherwise, the amount would be entered on line 4.

Line 5

Although the 1987 IRA contributions you made during 1/1/88–4/15/88 (line 4) can be treated as nondeductible (for purposes of line 3), these amounts are not included in your basis for 1987. This is the reason you subtract the amount on line 4 from the amount on line 3. The amount on line 4 will be included in basis on your 1988 Form 8606.

Line 6

Use this line if you wish to change a nondeductible contribution made on a prior-year's return to a deductible contribution, or vice versa. For example, if you were eligible to deduct your IRA contributions for 1987 but you chose to treat them as nondeductible when you filed your 1987 tax return, you can at a later date change the designation to a deductible contribution by filing an amended tax return on **Form 1040X**, Amended U.S. Individual Income Tax Return, and show the change in designation on line 6 of Form 8606.

Line 8

Enter on line 8 the total value of all your IRAs as of December 31, 1987, from line 2. Include on line 8 any outstanding rollovers. A **rollover** is a tax-free distribution from one IRA which is then contributed to another IRA. The rollover contribution must be made within 60 days of receiving the distribution from the first IRA. An **outstanding rollover** is any amount distributed to you from one IRA within 60 days of the end of 1987 (between November 2 and December 31) that you did not roll over to another IRA by December 31, 1987, but that you roll over to another IRA in 1988 within the normal 60-day rollover period.

Line 9

Do not include on line 9 any distributions that were: (1) received in 1987 that you rolled over to another IRA by December 31, 1987; (2) outstanding rollovers included on line 8; (3) contributions under Internal Revenue Code section 408(d)(4) that were returned to you before the due date of the return; or (4) excess contributions made under Internal Revenue Code section 408(d)(5).

Line 12

The amount shown on this line is your nontaxable IRA distribution for 1987. Subtract this amount from your total distributions shown on line 9. The difference is your taxable distributions to be reported on Form 1040, line 16b.