

QUARTERLY RETIREMENT REVIEW

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EVALUATING THE NEW ROTH IRA CONVERSION OPPORTUNITY

In 2010 and in subsequent years, investors will have the option of converting all or part of their money from a Traditional Individual Retirement Account (IRA) into a Roth IRA, regardless of how much they earn.

Keeping Assets in a Traditional IRA vs. Converting to a Roth IRA

		In Retirement					
		Pretax Value at Retirement (Age 65)		Cumulative After-Tax Value of Withdrawals (Age 65–95)		After-Tax Remaining Balance (Age 95)	
		Traditional IRA	Roth IRA	Traditional IRA	Roth IRA	Traditional IRA	Roth IRA
Example 1		\$114,366	\$114,366	\$178,235	\$217,641	\$51,046	\$120,834
45 year old \$25,000 IRA Taxes: \$7,188	Taxable Side Account*	24,755	N/A	40,674	N/A	6,281	N/A
	Total	139,121	114,366	218,909	217,641	57,327	120,834
		Total Roth Advantage in Retirement					\$62,238
Example 2		\$105,947	\$105,947	\$165,114	\$201,619	\$47,288	\$111,939
55 year old \$50,000 IRA Taxes: \$14,375	Taxable Side Account*	26,475	N/A	45,950	N/A	6,718	N/A
	Total	132,422	105,947	211,064	201,619	54,006	111,939
		Total Roth Advantage in Retirement					\$48,489
Example 3		\$100,000	\$100,000	\$155,846	\$190,302	\$44,634	\$105,655
65 year old \$100,000 IRA Taxes: \$28,750	Taxable Side Account*	28,750	N/A	59,929	N/A	8,147	N/A
	Total	128,750	100,000	215,774	190,302	52,781	105,655
		Total Roth Advantage in Retirement					\$27,402

Assumptions: The examples assume no additional IRA contributions are made, an 8% annual rate of return before retirement at age 65 and a 6% rate thereafter, and an ordinary federal income tax rate of 25% before and after retirement with a state tax rate of 5% for a combined effective rate of 28.75%. The conversion pushes the 65-year-old investor into a higher tax bracket in the year of conversion only. Net income and long-term gains in the taxable side account are subject to a federal tax rate of 15% and a state rate of 5% for a combined effective rate of 19.25%. All Roth IRA withdrawals are free of taxation; all Traditional IRA withdrawals are subject to federal and state taxes. Withdrawals are made over a 30-year period with 4% withdrawn the first year and the annual withdrawal amount increased by 3% each year for inflation. Withdrawals from the Traditional IRA take into account required minimum distributions. Also, all Traditional IRA contributions are deductible, and therefore the entire conversion amount is subject to taxes.

*We assume that the taxes due on the amount converted are paid from a separate taxable account. Therefore, to do a valid comparison, the taxable side account reflects the value of keeping the "tax savings" that would have been paid in the IRA conversion invested in this separate taxable account, growing at the same rates of return and withdrawals as noted above. The advantage of a Roth IRA would be considerably greater, of course, if these "tax savings" had been spent rather than invested.

Source: T. Rowe Price.



Whether you are years from retirement or approaching retirement, you may find it worthwhile to consider a Roth IRA conversion, either for yourself or to potentially leave tax-free assets to heirs.

The advantages include: (1) the converted assets (principal) in the Roth IRA can be withdrawn tax-free at any time; (2) any future earnings in the account are also tax-free (with some limitations), and (3) the account owner will not be required to take any minimum distributions in retirement.

It is important to note, however, the taxable amount of a Traditional IRA (earnings plus deductible contributions) converted to a Roth IRA is subject to current taxation.

So investors must examine whether it is worthwhile to go through this tax tollbooth today so they can withdraw earnings from a Roth IRA income tax-free during retirement or perhaps leave those assets to heirs who would avoid taxes on the earnings as well. The chart on Page 1 contains an example that you might find useful.

Some of our very general findings, are suggesting that:

1. The further you are away from drawing down from your IRAs for income or required minimum distributions, the more advantageous prepaying taxes to convert to a Roth IRA will be because there are more years to potentially grow and compound earnings tax-free.

2. The investor's potential tax bracket in retirement is also important. If the investor's tax rate drops significantly after retirement it may not be as beneficial to convert since the investor would be paying taxes on any earnings (and deductible contributions) at a higher rate now. If the tax rate rises, converting now may be more attractive since taxes due as a result of the conversion would be paid at the lower current rate, while withdrawals from the Traditional IRA in retirement would be taxed at a potentially higher rate.
3. For investors who convert Traditional IRA assets to a Roth IRA and do not intend to take retirement withdrawals from the Roth IRA unless needed for late-in-life emergencies, a conversion provides the opportunity to turn a relatively small amount of savings into a surprisingly sizable bequest to their heirs.
4. In any case, for the Roth IRA conversion to be most advantageous, any taxes due on the amount converted should be paid from a separate taxable account and not from the IRA itself.

The chart on the left will give you some general indication of the potential benefit to your heirs, should you choose to convert, and we have included Chapter 17 from IRA Publication 17 to assist you in making your decision.

Passing on a Roth IRA to Heirs Could Reap Huge Benefits

In this example, the owner of a Roth IRA who converted \$100,000 from a Traditional IRA at age 65 by spending \$28,750 in income taxes passes away at age 85.

Since she took no distributions, the balance in the account grew to \$320,714, which she leaves to her son, age 55, in the year following the year of the owner's death.

The table shows the total benefits to the beneficiary at various ages from the inherited Roth IRA.

The analysis assumes the beneficiary only withdraws required amounts each year, though he may always withdraw more than the required minimum distributions (RMDs) at any time. The other assumptions are the same as in the exhibit on page 1.

Age of Roth IRA Beneficiary	Cumulative Tax-Free Distributions	Remaining Roth IRA Balance	Total Roth IRA Benefit	Advantage Over After-Tax Traditional IRA*
65	\$183,446	\$477,225	\$660,672	\$296,619
70	329,132	475,564	804,696	360,776
75	528,318	413,498	941,816	426,990
80	804,481	244,452	1,048,932	482,105
85	1,086,191	0	1,086,191	510,964

Dollar amounts have not been adjusted for inflation to reflect current purchasing power.

Note: While RMDs are required from inherited Roth IRAs, the amounts distributed are not taxable.

*Reflects sum of cumulative after-tax withdrawals and balances.

The value of the Traditional IRA includes the earnings in a separate taxable account funded by the tax savings, or the amount that would have been paid in taxes if the conversion was not made. This taxable account is not subject to RMD rules but such withdrawals were made for this comparison.

The assumed tax rates and rates of return are the same as in the exhibit on page 1.



COMPARING SOME OF THE HISTORICAL DATA FROM THE 1973-1974 BEAR MARKET WITH OUR MOST RECENT MARKET DECLINE

No two markets, bear or otherwise, are the same. In 1973 - 1974, investors in the S&P 500 Index lost almost 15% in the first year and then more than 26% in the second year. From the last market peak in the fall of 2007 through the market low on March 9 of this year, S&P 500 investors lost 57%. Nevertheless, it might be useful to examine the outcomes of “retirees” and “savers” under a number of financial strategies following that bear market to gain some insight into the possibility of a repeat following the most recent downturn.

The Retiree

Comparing Strategies for the 1973–1974 Bear Market: The Retiree

The chart compares the historical performances for five portfolios for an investor who retired at 65 in 1973—at the start of a major bear market—with \$250,000 in assets. She withdrew \$10,000 the first year and increased the annual withdrawal by the inflation rate every year thereafter—over a 30-year retirement until 2003.

The “glide path” portfolio has a 55% allocation to equities at age 65 and declines gradually to 20% at age 95. The “less 10%” and “less 20%” portfolios have 45% and 35% allocations to equities at age 65, respectively, and decline gradually to 20% at ages 85 and 74, respectively.

Blue numbers represent the portfolio with the highest balance at that year; red numbers represent the portfolio with the lowest balance. Market indices used in this study are in the note below.

Balance at Beginning of Year						
Year	Withdrawal	Glide Path	Less 10%	Less 20%	All Bonds	All Cash
1973	\$10,000	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000
1974	10,880	222,744	228,192	233,688	252,336	256,656
1975	12,207	186,906	197,189	207,902	243,895	265,463
1980	18,060	253,816	256,199	258,074	266,056	281,251
1985	24,784	311,937	312,613	307,098	316,445	330,120
1988	27,156	394,109	388,063	371,177	391,875	312,040
1990	29,675	437,912	420,042	394,845	403,334	297,661
1995	35,228	435,700	413,962	379,497	418,493	193,659
2000	39,601	497,093	438,249	381,792	395,486	34,278
2001	40,943	470,759	412,043	353,689	378,947	0
2002	41,578	438,713	380,526	320,689	360,312	0
2003		400,948	343,287	282,684	347,612	0

Note: Each portfolio was selected without regard to past performance and is intended to illustrate the effect of alternative equity allocations on long-term performance during the time period chosen. The specific allocations of “less 10%” and “less 20%” were selected to allow for reduced equity exposure at the retirement date, while allowing the glide path to decline to 20% at age 85 and 74, respectively. The time period was selected because 1973–1974 represented the start of a bear market, and there is 30 years of historical performance available to complete the illustration of an investor’s anticipated retirement period.

Withdrawals and contributions occur at the start of each year; amounts are adjusted by actual inflation after the initial year. Portfolios are rebalanced monthly. Indices used to replicate the three glide paths’ historical performances are: Ibbotson Associates 30-Day Treasury Bill Total Return; Ibbotson U.S. Aggregate Bond Total Return (1973–1975) and Barclays Capital U.S. Aggregate Bond Total Return (1976–2008); World ex U.S. Bond Total Return (1973–1987) and Barclays Capital Global Bond Majors ex U.S. Total Return USD (1987–2008); S&P 500 Total Return; Ibbotson U.S. Small Stock Total Return (1973–1978); and Russell 2000 U.S. Small Stock Total Return. It is not possible to invest directly in these indices.

Source: T. Rowe Price.

The chart above compares the historical performances for five portfolios for an investor who retired at 65 in 1973, at the start of the major bear market with \$250,000 in assets.

While some may insist that an all-cash, all-bonds, or more conservative equity allocation would be better for a retiree than a higher equity allocation, those approaches did not prevail over the long term. In the study above, such portfolios did not turn out to be superior to the most equity-rich portfolio—the “glide path portfolio.” Interestingly, the all-cash portfolio, ran out of money prematurely for both of these investors.



The Savers:

Comparing Strategies for the 1973–1974 Bear Market: The Saver

The chart compares the historical performances for five portfolios for a 45-year-old investor who had \$75,000 in assets at the beginning of 1973 and who contributed an additional \$5,000 the first year and increased that amount by inflation every year through 1992, when she retired at age 65. Then, in 1993, she began to withdraw an amount equivalent to 4% of the assets accumulated in the “glide path” portfolio and increased the annual withdrawal by the inflation rate every year through 2008.

Details of the portfolios and indices and assumptions are the same as noted in the chart on page 16. In this example, the “glide path” portfolio starts out with 85% in equities at age 45 and gradually reduces that to 34% by age 81 at the start of 2009. The “less 10%” portfolio starts with an 81% allocation to equities at age 45 and ends up at 24% at age 81. The “less 20%” portfolio starts at 79% in equities at age 45 and is at 20% at age 81.

Blue numbers represent the portfolio with the highest balance at that year; red numbers represent the portfolio with the lowest balance. See note at end of chart on page 16.

Balance at Beginning of Year								
Year	Age	Contribution	Withdrawal	Glide Path	Less 10%	Less 20%	All Bonds	All Cash
1973	45	\$5,000		\$75,000	\$75,000	\$75,000	\$75,000	\$75,000
1974	46	5,440		68,760	69,488	69,872	84,112	85,552
1975	47	6,104		59,286	60,782	61,560	90,456	98,280
1980	52	9,030		184,848	182,299	180,778	169,025	178,861
1985	57	12,392		422,265	417,379	414,641	380,605	373,581
1990	62	14,838		1,102,076	1,052,575	1,018,305	792,102	600,051
1992	64	16,226		1,359,014	1,314,206	1,284,090	1,057,923	716,856
1993	65		\$58,448	1,461,193	1,418,241	1,390,168	1,166,956	758,739
1995	67		61,532	1,536,086	1,476,447	1,434,089	1,156,941	686,421
2000	72		69,745	2,550,630	2,271,602	2,045,396	1,316,996	507,306
2005	77		78,892	2,613,994	2,382,209	2,199,752	1,452,340	195,262
2006	78		80,896	2,624,338	2,372,648	2,176,851	1,391,028	119,838
2007	79		84,196	2,798,550	2,494,801	2,265,937	1,389,265	40,816
2008	80		84,272	2,868,800	2,550,902	2,309,373	1,388,462	0
2009	81			2,377,152	2,203,688	2,027,512	1,291,801	0

Source: T. Rowe Price.

While even the most conservative investors would not likely remain all in cash or bonds forever, this study shows big differences in final balances among the strategies.

For investors who endured the 1973—1974 bear market, greater equity exposure paid off in the long run. It is important to note, however, that they had to have the fortitude and discipline to stick with the strategy through some turbulent times.

All of the staff at S.L. Reed & Company would like to wish you a very Happy Holiday season and a safe and prosperous New Year.

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17.

Individual Retirement Arrangements (IRAs)

What's New for 2009

Modified AGI limit for traditional IRA contributions increased. For 2009, if you were covered by a retirement plan at work, your deduction for contributions to a traditional IRA is reduced (phased out) if your modified adjusted gross income (AGI) is:

- More than \$89,000 but less than \$109,000 for a married couple filing a joint return or a qualifying widow(er),
- More than \$55,000 but less than \$65,000 for a single individual or head of household, or
- Less than \$10,000 for a married individual filing a separate return.

If you either lived with your spouse or file a joint return, and your spouse was covered by a retirement plan at work, but you were not, your deduction is phased out if your modified AGI is more than \$166,000 but less than \$176,000. If your modified AGI is \$176,000 or more, you cannot take a deduction for contributions to a traditional IRA. See [How Much Can You Deduct?](#) later.

Modified AGI limit for Roth IRA contributions increased. For 2009, your Roth IRA contribution limit is reduced (phased out) in the following situations.

- Your filing status is married filing jointly or qualifying widow(er) and your modified AGI is at least \$166,000. You cannot make a Roth IRA contribution if your modified AGI is \$176,000 or more.
- Your filing status is single, head of household, or married filing separately and you did not live with your spouse at any time in 2009 and your modified AGI is at least \$105,000. You cannot make a Roth IRA contribution if your modified AGI is \$120,000 or more.
- Your filing status is married filing separately, you lived with your spouse at any time during the year, and your modified AGI is more than -0-. You cannot make a Roth IRA contribution if your modified AGI is \$10,000 or more.

See [Can You Contribute to a Roth IRA?](#) later.

Waiver of required minimum distribution rules. No minimum distribution is required from your traditional or Roth IRA for 2009. See [Waiver of required minimum distribution rules for 2009](#), later.

Military differential pay. For IRA purposes, your compensation includes any military differential pay you receive from your employer while

you are serving on active duty for a period of more than 30 days. For more information, see [Military differential pay](#), later.

What's New for 2010

Modified AGI limit for traditional IRA contributions increased. For 2010, if you are covered by a retirement plan at work, your deduction for contributions to a traditional IRA is reduced (phased out) if your modified AGI is:

- More than \$89,000 but less than \$109,000 for a married couple filing a joint return or a qualifying widow(er),
- More than \$56,000 but less than \$66,000 for a single individual or head of household, or
- Less than \$10,000 for a married individual filing a separate return.

If you either live with your spouse or file a joint return, and your spouse is covered by a retirement plan at work, but you are not, your deduction is phased out if your modified AGI is more than \$167,000 but less than \$177,000. If your modified AGI is \$177,000 or more, you cannot take a deduction for contributions to a traditional IRA. See [How Much Can You Deduct?](#) later.

Modified AGI limit for Roth IRA contributions increased. For 2010, your Roth IRA contribution limit is reduced (phased out) in the following situations.

- Your filing status is married filing jointly or qualifying widow(er) and your modified AGI is at least \$167,000. You cannot make a Roth IRA contribution if your modified AGI is \$177,000 or more.
- Your filing status is single, head of household, or married filing separately and you did not live with your spouse at any time in 2010 and your modified AGI is at least \$105,000. You cannot make a Roth IRA contribution if your modified AGI is \$120,000 or more.
- Your filing status is married filing separately, you lived with your spouse at any time during the year, and your modified AGI is more than -0-. You cannot make a Roth IRA contribution if your modified AGI is \$10,000 or more.

See [Can You Contribute to a Roth IRA?](#) later.

Conversions to Roth IRAs. Beginning in 2010, the modified AGI and filing status requirements for converting a traditional IRA to a Roth IRA are eliminated.

Also, for any 2010 rollover from an IRA other than a Roth IRA to a Roth IRA, any amounts that would be included as income will be included in income in equal amounts in 2011 and 2012. You can choose to include the entire amount in income in 2010.

Catch-up contributions in certain employer bankruptcies. The provision for additional catch-up contributions in certain employer bankruptcies does not apply for 2010 or later years.

Qualified charitable distributions (QCDs). The provision for tax-free distributions from IRAs for charitable purposes does not apply for 2010 or later years.

Reminders

Contributions to both traditional and Roth IRAs. For information on your combined contribution limit if you contribute to both traditional and Roth IRAs, see [Roth IRAs and traditional IRAs](#) under [How Much Can Be Contributed?](#) later.

Statement of required minimum distribution. If a minimum distribution is required from your IRA, the trustee, custodian, or issuer that held the IRA at the end of the preceding year must either report the amount of the required minimum distribution to you, or offer to calculate it for you. The report or offer must include the date by which the amount must be distributed. The report is due January 31 of the year in which the minimum distribution is required. It can be provided with the year-end fair market value statement that you normally get each year. No report is required for IRAs of owners who have died.

Waiver of RMD for 2009. You are not required to take an RMD for 2009 from your IRA.

IRA interest. 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 tax return as tax-exempt interest.

Form 8606. To designate contributions as nondeductible, you must file Form 8606, Nondeductible IRAs.

Hurricane and disaster-related tax relief. Special rules apply to the use of retirement funds (including IRAs) by qualified individuals who suffered an economic loss as a result of:

- Hurricane Katrina, Rita, or Wilma,
- The storms that began on May 4, 2007, in the Kansas disaster area, or
- The severe storms in the Midwestern disaster areas in 2008.

For more information on these special rules see [Hurricane-Related Relief, Relief for Kansas Disaster Area, and Relief for Midwestern Disaster Areas](#) in chapter 4 of Publication 590.

TIP The term "50 or older" is used several times in this chapter. It refers to an IRA owner who is age 50 or older by the end of the tax year.

Introduction

An individual retirement arrangement (IRA) is a personal savings plan that gives you tax advantages for setting aside money for your retirement.

This chapter discusses the following topics.

- The rules for a traditional IRA (any IRA that is not a Roth or SIMPLE IRA).
- The Roth IRA, which features nondeductible contributions and tax-free distributions.

Simplified Employee Pensions (SEPs) and Savings Incentive Match Plans for Employees (SIMPLEs) are not discussed in this chapter. For more information on these plans and employees' SEP IRAs and SIMPLE IRAs that are part of these plans, see Publications 560 and 590.

For information about contributions, deductions, withdrawals, transfers, rollovers, and other transactions for 2010, see Publication 590.

Useful Items

You may want to see:

Publication

- ❑ **560** Retirement Plans for Small Business
- ❑ **590** Individual Retirement Arrangements (IRAs)

Form (and Instructions)

- ❑ **5329** Additional Taxes on Qualified Plans (including IRAs) and Other Tax-Favored Accounts
- ❑ **8606** Nondeductible IRAs

Traditional IRAs

In this chapter the original IRA (sometimes called an ordinary or regular IRA) is referred to as a "traditional IRA." Two advantages of a traditional IRA are:

- You may be able to deduct some or all of your contributions to it, depending on your circumstances, and
- Generally, amounts in your IRA, including earnings and gains, are not taxed until they are distributed.

What Is a Traditional IRA?

A traditional IRA is any IRA that is not a Roth IRA or a SIMPLE IRA.

Who Can Set Up a Traditional IRA?

You can set up and make contributions to a traditional IRA if:

- You (or, if you file a joint return, your spouse) received taxable compensation during the year, and
- You were not age 70½ by the end of the year.

What is compensation? Generally, compensation is what you earn from working. Compensation includes wages, salaries, tips, professional fees, bonuses, and other amounts you receive for providing personal services. The IRS treats as compensation any amount properly shown in box 1 (Wages, tips, other compensation) of Form W-2, Wage and Tax Statement, provided that amount is reduced by any amount properly shown in box 11 (Nonqualified plans).

Scholarship and fellowship payments are compensation for this purpose only if shown in box 1 of Form W-2.

Compensation also includes commissions and taxable alimony and separate maintenance payments.

Self-employment income. If you are self-employed (a sole proprietor or a partner), compensation is the net earnings from your trade or business (provided your personal services are a material income-producing factor) reduced by the total of:

- The deduction for contributions made on your behalf to retirement plans, and
- The deduction allowed for one-half of your self-employment taxes.

Compensation includes earnings from self-employment even if they are not subject to self-employment tax because of your religious beliefs.

Military differential pay. For IRA purposes, compensation includes military differential pay you receive. Military differential payments are those payments made by some employers to employees who have been called to active duty in the uniformed services for a period of more than 30 days. Beginning in 2009, these payments will be reported in box 1 (Wages, tips, other compensation) of Form W-2.

Nontaxable combat pay. For IRA purposes, if you were a member of the U.S. Armed Forces, your compensation includes any nontaxable combat pay you receive.

What 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).
- Income from a partnership for which you do not provide services that are a material income-producing factor.
- Any amounts (other than combat pay) you exclude from income, such as foreign earned income and housing costs.

When and How Can a Traditional IRA Be Set Up?

You can set up a traditional IRA at any time. However, the time for making contributions for any year is limited. See [When Can Contributions Be Made](#), later.

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.

Kinds of traditional IRAs. Your traditional IRA can be an individual retirement account or annuity. It can be part of either a simplified employee pension (SEP) or an employer or employee association trust account.

How Much Can Be Contributed?

There are limits and other rules that affect the amount that can be contributed to a traditional IRA. These limits and other rules are explained below.

Community property laws. Except as discussed later under [Spousal IRA limit](#), 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.

Brokers' commissions. Brokers' commissions paid in connection with your traditional IRA are subject to the contribution limit.

Trustees' fees. Trustees' administrative fees are not subject to the contribution limit.

Qualified reservist repayments. If you are (or were) a member of a reserve component and you were ordered or called to active duty after September 11, 2001, you may be able to contribute (repay) to an IRA amounts equal to any qualified reservist distributions you received. You can make these repayment contributions even if they would cause your total contributions to the IRA to be more than the general limit on contributions. To be eligible to make these repayment contributions, you must have received a qualified reservist distribution from an IRA or from a section 401(k) or 403(b) plan or similar arrangement.

For more information, see *Qualified reservist repayments* under *How Much Can Be Contributed?* in chapter 1 of Publication 590.



Contributions on your behalf to a traditional IRA reduce your limit for contributions to a Roth IRA. (See [Roth IRAs](#), later.)

General limit. For 2009, the most that can be contributed to your traditional IRA generally is the smaller of the following amounts.

- \$5,000 (\$6,000 if you are 50 or older).
- Your taxable compensation (defined earlier) for the year.

This is the most that can be contributed regardless of whether the contributions are to one or more traditional IRAs or whether all or part of the contributions are nondeductible. (See [Nondeductible Contributions](#), later.) Qualified reservist repayments do not affect this limit.

Example 1. Betty, who is 34 years old and single, earned \$24,000 in 2009. Her IRA contributions for 2009 are limited to \$5,000.

Example 2. John, an unmarried college student working part time, earned \$3,500 in 2009. His IRA contributions for 2009 are limited to \$3,500, the amount of his compensation.

Catch-up contributions in certain employer bankruptcies. If you participated in a 401(k) plan and the employer who maintained the plan went into bankruptcy, you may be able to contribute an additional \$3,000 to your IRA. See Publication 590 to see if you qualify to make these additional contributions.

Spousal IRA limit. For 2009, if you file a joint return and your taxable compensation is less than that of your spouse, the most that can be contributed for the year to your IRA is the smaller of the following amounts.

1. \$5,000 (\$6,000 if you are 50 or older).
2. The total compensation includible in the gross income of both you and your spouse for the year, reduced by the following two amounts.
 - a. Your spouse's IRA contribution for the year to a traditional IRA.
 - b. Any contribution for the year to a Roth IRA on behalf of your spouse.

This means that the total combined contributions that can be made for the year to your IRA and your spouse's IRA can be as much as \$10,000 (\$11,000 if only one of you is 50 or older, or \$12,000 if both of you are 50 or older).

Table 17-1. Effect of Modified AGI¹ on Deduction if You Are Covered by Retirement Plan at Work

If you are covered by a retirement plan at work, use this table to determine if your modified AGI affects the amount of your deduction.

IF your filing status is...	AND your modified AGI is...	THEN you can take...
single or head of household	\$55,000 or less	a full deduction.
	more than \$55,000 but less than \$65,000	a partial deduction.
married filing jointly or qualifying widow(er)	\$89,000 or less	a full deduction.
	more than \$89,000 but less than \$109,000	a partial deduction.
married filing separately²	\$109,000 or more	no deduction.
	less than \$10,000	a partial deduction.
	\$10,000 or more	no deduction.

¹Modified AGI (adjusted gross income). See [Modified adjusted gross income \(AGI\)](#).

²If you did not live with your spouse at any time during the year, your filing status is considered Single for this purpose (therefore, your IRA deduction is determined under the "Single" column).

When Can Contributions Be Made?

As soon as you set up your traditional IRA, contributions can be made to it through your chosen sponsor (trustee or other administrator). Contributions must be in the form of money (cash, check, or money order). Property cannot be contributed.

Contributions must be made by due date. Contributions can be made to your traditional 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.

Age 70½ rule. Contributions cannot be made to your traditional IRA for the year in which you reach age 70½ or for any later year.

You attain age 70½ on the date that is 6 calendar months after the 70th anniversary of your birth. If you were born on or before June 30, 1939, you cannot contribute for 2009 or any later year.

Table 17-2. Effect of Modified AGI¹ on Deduction if You Are NOT Covered by Retirement Plan at Work

If you are not covered by a retirement plan at work, use this table to determine if your modified AGI affects the amount of your deduction.

IF your filing status is...	AND your modified AGI is...	THEN you can take...
single, head of household, or qualifying widow(er)	any amount	a full deduction.
married filing jointly or separately with a spouse who is not covered by a plan at work	any amount	a full deduction.
married filing jointly with a spouse who is covered by a plan at work	\$166,000 or less	a full deduction.
	more than \$166,000 but less than \$176,000	a partial deduction.
	\$176,000 or more	no deduction.
married filing separately with a spouse who is covered by a plan at work²	less than \$10,000	a partial deduction.
	\$10,000 or more	no deduction.

¹Modified AGI (adjusted gross income). See [Modified adjusted gross income \(AGI\)](#).

²You are entitled to the full deduction if you did not live with your spouse at any time during the year.

How Much Can You Deduct?

Generally, you can deduct the lesser of:

- The contributions to your traditional IRA for the year, or
- The general limit (or the spousal IRA limit, if it applies).

However, if you or your spouse was covered by an employer retirement plan, you may not be able to deduct this amount. See [Limit If Covered by Employer Plan](#), later.



You may be eligible to claim a credit for contributions to your traditional IRA. For more information, see chapter 37.

Trustees' fees. Trustees' administrative fees that are billed separately and paid in connection with your traditional IRA are not deductible as IRA contributions. However, they may be deductible as a miscellaneous itemized deduction on Schedule A (Form 1040). See chapter 28.

Brokers' commissions. Brokers' commissions are part of your IRA contribution and, as such, are deductible subject to the limits.

Full deduction. If neither you nor your spouse was covered for any part of the year by an employer retirement plan, you can take a deduction for total contributions to one or more traditional IRAs of up to the lesser of:

- \$5,000 (\$6,000 if you are 50 or older in 2009, or \$8,000 for certain employer bankruptcies).
- 100% of your compensation.

This limit is reduced by any contributions made to a 501(c)(18) plan on your behalf.

Spousal IRA. In the case of a married couple with unequal compensation who file a joint return, the deduction for contributions to the traditional IRA of the spouse with less compensation is limited to the lesser of the following amounts.

1. \$5,000 (\$6,000 if you are 50 or older in 2009, or \$8,000 for certain employer bankruptcies).
2. The total compensation includible in the gross income of both spouses for the year reduced by the following three amounts.
 - a. The IRA deduction for the year of the spouse with the greater compensation.
 - b. Any designated nondeductible contribution for the year made on behalf of the spouse with the greater compensation.
 - c. Any contributions for the year to a Roth IRA on behalf of the spouse with the greater compensation.

This limit is reduced by any contributions to a 501(c)(18) plan on behalf of the spouse with the lesser compensation.

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

Covered by an employer retirement plan. If you or your spouse was covered by an employer retirement plan at any time during the year for

Worksheet 17-1. Figuring Your Modified AGI

Keep for Your Records



Use this worksheet to figure your modified adjusted gross income for traditional IRA purposes.

1. Enter your adjusted gross income (AGI) from Form 1040, line 38; or Form 1040A, line 22, figured without taking into account the amount from Form 1040, line 32; or Form 1040A, line 17	1. _____
2. Enter any student loan interest deduction from Form 1040, line 33; or Form 1040A, line 18	2. _____
3. Enter any tuition and fees deduction from Form 1040, line 34; or Form 1040A, line 19	3. _____
4. Enter any domestic production activities deduction from Form 1040, line 35	4. _____
5. Enter any foreign earned income and/or housing exclusion from Form 2555, line 45; or Form 2555-EZ, line 18	5. _____
6. Enter any foreign housing deduction from Form 2555, line 50	6. _____
7. Enter any excludable savings bond interest from Form 8815, line 14	7. _____
8. Enter any excluded employer-provided adoption benefits from Form 8839, line 30	8. _____
9. Add lines 1 through 8. This is your Modified AGI for traditional IRA purposes	9. _____

which contributions were made, your deduction may be further limited. This is discussed later under [Limit If Covered by Employer Plan](#). Limits on the amount you can deduct do not affect the amount that can be contributed. See [Nondeductible Contributions](#), later.

Are You Covered by an Employer Plan?

The Form W-2 you receive from your employer has a box used to indicate whether you were covered for the year. The "Retirement plan" box should be checked if you were covered.

Reservists and volunteer firefighters should also see [Situations in Which You Are Not Covered](#), later.

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

Federal judges. For purposes of the IRA deduction, federal judges are covered by an employer retirement plan.

For Which Year(s) Are You Covered?

Special rules apply to determine the tax years for which you are covered by an employer plan. These rules differ depending on whether the plan is a defined contribution plan or a defined benefit plan.

Tax year. Your tax year is the annual accounting period you use to keep records and report income and expenses on your income tax return. For almost all people, the tax year is the calendar year.

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

A defined contribution plan is a plan that provides for a separate account for each person

covered by the plan. Types of defined contribution plans include profit-sharing plans, stock bonus plans, and money purchase pension plans.

Defined benefit plan. If you are eligible to participate in your employer's defined benefit plan for the plan year that ends within your tax year, you are covered by the plan. This rule applies even if you:

- Declined to participate in the plan,
- Did not make a required contribution, or
- 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. Defined benefit plans include pension plans and annuity plans.

No vested interest. If you accrue a benefit for a plan year, you are covered by that plan even if you have no vested interest in (legal right to) the accrual.

Situations in Which You Are Not Covered

Unless you are covered under another employer plan, you are not covered by an employer plan if you are in one of the situations described below.

Social security or railroad retirement. Coverage under social security or railroad retirement is not coverage under an employer retirement plan.

Benefits from a previous employer's plan. If you receive retirement benefits from a previous employer's plan, you are not covered by that 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 covered by the plan. You are not 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 covered by the plan. You are not 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.

Limit If Covered by Employer Plan

If either you or your spouse was 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. These amounts vary depending on your filing status.

To determine if your deduction is subject to phaseout, you must determine your modified adjusted gross income (AGI) and your filing status. See [Filing status](#) and [Modified adjusted gross income \(AGI\)](#), later. Then use [Table 17-1](#) or [17-2](#) to determine if the phaseout applies.

Social security recipients. Instead of using [Table 17-1](#) or [Table 17-2](#), use the worksheets in Appendix B of Publication 590 if, for the year, all of the following apply.

- You received social security benefits.
- You received taxable compensation.
- Contributions were made to your traditional IRA.
- You or your spouse was covered by an employer retirement plan.

Use those worksheets to figure your IRA deduction, your nondeductible contribution, and the taxable portion, if any, of your social security benefits.

Deduction phaseout. If you were covered by an employer retirement plan and you did not receive any social security retirement benefits, your IRA deduction may be reduced or eliminated depending on your filing status and modified AGI as shown in [Table 17-1](#).

If your spouse is covered. If you are not covered by an employer retirement plan, but your spouse is, and you did not receive any social security benefits, your IRA deduction may be reduced or eliminated entirely depending on your filing status and modified AGI as shown in [Table 17-2](#).

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 [chapter 2](#).

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

Modified adjusted gross income (AGI). How you figure your modified AGI depends on whether you are filing Form 1040 or Form 1040A. If you made contributions to your IRA for 2009 and received a distribution from your IRA in 2009, see Publication 590.



Do not assume that your modified AGI is the same as your compensation. Your modified AGI may include income in addition to your compensation (discussed earlier), such as interest, dividends, and income from IRA distributions.

Form 1040. If you file Form 1040, refigure the amount on the page 1 “adjusted gross income” line without taking into account any of the following amounts.

- IRA deduction.
- Student loan interest deduction.
- Tuition and fees deduction.
- Domestic production activities deduction.
- Foreign earned income exclusion.
- Foreign housing exclusion or deduction.
- Exclusion of qualified savings bond interest shown on Form 8815, Exclusion of Interest From Series EE and I U.S. Savings Bonds Issued After 1989 (For Filers With Qualified Higher Education Expenses).
- Exclusion of employer-provided adoption benefits shown on Form 8839, Qualified Adoption Expenses.

This is your modified AGI.

Form 1040A. If you file Form 1040A, refigure the amount on the page 1 “adjusted gross income” line without taking into account any of the following amounts.

- IRA deduction.
- Student loan interest deduction.
- Tuition and fees deduction.
- Exclusion of qualified savings bond interest shown on Form 8815.

This is your modified AGI.

Both contributions for 2009 and distributions in 2009. If all three of the following apply, any IRA distributions you received in 2009 may be partly tax free and partly taxable.

- You received distributions in 2009 from one or more traditional IRAs.
- You made contributions to a traditional IRA for 2009.
- Some of those contributions may be nondeductible contributions.

If this is your situation, you must figure the taxable part of the traditional IRA distribution before you can figure your modified AGI. To do this, you can use Worksheet 1-5, Figuring the Taxable Part of Your IRA Distribution, in Publication 590.

If at least one of the above does not apply, figure your modified AGI using [Worksheet 17-1](#) above.

How to figure your reduced IRA deduction. You can figure your reduced IRA deduction for either Form 1040 or Form 1040A by using the worksheets in chapter 1 of Publication 590. Also, the instructions for Form 1040 and Form 1040A include similar worksheets that you may be able to use instead.

Reporting Deductible Contributions

If you file Form 1040, enter your IRA deduction on line 32 of that form. If you file Form 1040A, enter your IRA deduction on line 17. You cannot deduct IRA contributions on Form 1040EZ.

Nondeductible Contributions

Although your deduction for IRA contributions may be reduced or eliminated, contributions can be made to your IRA up to the general limit or, if it applies, the spousal IRA limit. The difference between your total permitted contributions and your IRA deduction, if any, is your nondeductible contribution.

Example. Mike is 28 years old and single. In 2009, he was covered by a retirement plan at work. His salary was \$57,312. His modified AGI was \$68,000. Mike made a \$5,000 IRA contribution for 2009. Because he was covered by a retirement plan and his modified AGI was over \$65,000, he cannot deduct his \$5,000 IRA contribution. He must designate this contribution as a nondeductible contribution by reporting it on Form 8606, as explained next.

Form 8606. To designate contributions as nondeductible, you must file Form 8606.

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.

You must file Form 8606 to report nondeductible contributions even if you do not have to file a tax return for the year.



A Form 8606 is not used for the year that you make a rollover from a qualified retirement plan to a traditional IRA and the rollover includes nontaxable amounts. In those situations, a Form 8606 is completed for the year you take a distribution from that IRA. See [Form 8606](#) under Distributions Fully or Partly Taxable, later.

Failure to report nondeductible contributions. If you do not report nondeductible contributions, all of the contributions to your traditional IRA will be treated as deductible contributions when withdrawn. All distributions from your IRA will be taxed unless you can show, with satisfactory evidence, that nondeductible contributions were made.

Penalty for overstatement. If you overstate the amount of 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 on earnings on nondeductible contributions. As long as contributions are within the contribution limits, none of the earnings or gains on contributions (deductible or nondeductible) will be taxed until they are distributed. See [When Can You Withdraw or Use IRA Assets](#), later.

Cost basis. You will have a cost basis in your traditional IRA if you made any nondeductible contributions. Your cost basis is the sum of the nondeductible contributions to your IRA minus any withdrawals or distributions of nondeductible contributions.

Inherited IRAs

If you inherit a traditional IRA, you are called a beneficiary. A beneficiary can be any person or entity the owner chooses to receive the benefits of the IRA after he or she dies. Beneficiaries of a traditional IRA must include in their gross income any taxable distributions they receive.

Inherited from spouse. If you inherit a traditional IRA from your spouse, you generally have the following three choices. You can:

1. Treat it as your own IRA by designating yourself as the account owner.
2. Treat it as your own by rolling it over into your IRA, or to the extent it is taxable, into a:
 - a. Qualified employer plan,
 - b. Qualified employee annuity plan (section 403(a) plan),
 - c. Tax-sheltered annuity plan (section 403(b) plan), or
 - d. Deferred compensation plan of a state or local government (section 457 plan).
3. Treat yourself as the beneficiary rather than treating the IRA as your own.

Treating it as your own. You will be considered to have chosen to treat the IRA as your own if:

- Contributions (including rollover contributions) are made to the inherited IRA, or
- You do not take the required minimum distribution for a year as a beneficiary of the IRA.

You will only be considered to have chosen to treat the IRA as your own if:

- You are the sole beneficiary of the IRA, and
- You have an unlimited right to withdraw amounts from it.

However, if you receive a distribution from your deceased spouse's IRA, you can roll that distribution over into your own IRA within the 60-day time limit, as long as the distribution is not a required distribution, even if you are not the sole beneficiary of your deceased spouse's IRA.

Inherited from someone other than spouse. If you inherit a traditional IRA from anyone other than your deceased spouse, you cannot treat the inherited IRA as your own. This means that you cannot make any contributions to the IRA. It also means you cannot roll over any amounts into or out of the inherited IRA. However, you can make a trustee-to-trustee transfer as long as the IRA into which amounts are being moved is set up and maintained in the name of the

deceased IRA owner for the benefit of you as beneficiary.

For more information, see the discussion of [inherited IRAs](#) under *Rollover From One IRA Into Another*, later.

Can You Move Retirement Plan Assets?

You can transfer, tax free, assets (money or property) from other retirement plans (including traditional IRAs) to a traditional IRA. You can make the following kinds of transfers.

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

Transfers to Roth IRAs. Under certain conditions, you can move assets from a traditional IRA or from a designated Roth account to a Roth IRA. You can also move assets from a qualified retirement plan to a Roth IRA. See [Can You Move Amounts Into a Roth IRA?](#) under *Roth IRAs*, later.

Trustee-to-Trustee Transfer

A transfer of funds in your traditional 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 1-year waiting period required between rollovers, discussed later under [Rollover From One IRA Into Another](#). For information about direct transfers to IRAs from retirement plans other than IRAs, see Publication 590.

Rollovers

Generally, a rollover is a tax-free distribution to you of cash or other assets from one retirement plan that you contribute (roll over) to another retirement plan. The contribution to the second retirement plan is called a "rollover contribution."

Note. An amount rolled over tax free from one retirement plan to another is generally includible in income when it is distributed from the second plan.

Kinds of rollovers to a traditional IRA. You can roll over amounts from the following plans into a traditional IRA:

- A traditional IRA,
- An employer's qualified retirement plan for its employees,
- A deferred compensation plan of a state or local government (section 457 plan), or
- A tax-sheltered annuity plan (section 403(b) plan).

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 under [Reporting rollovers from employer plans](#).

Kinds of rollovers from a traditional IRA. You may be able to roll over, tax free, a distribution from your traditional IRA into a qualified plan. These plans include the federal Thrift Savings Fund (for federal employees), deferred

compensation plans of state or local governments (section 457 plans), and tax-sheltered annuity plans (section 403(b) plans). The part of the distribution that you can roll over is the part that would otherwise be taxable (includible in your income). Qualified plans may, but are not required to, accept such rollovers.

Time limit for making a rollover contribution. You generally must make the rollover contribution by the 60th day after the day you receive the distribution from your traditional IRA or your employer's plan.

The IRS may waive the 60-day requirement where the failure to do so would be against equity or good conscience, such as in the event of a casualty, disaster, or other event beyond your reasonable control. For more information, see Publication 590.

Extension of rollover period. If an amount distributed to you from a traditional IRA or a qualified employer retirement plan is a frozen deposit at any time during the 60-day period allowed for a rollover, special rules extend the rollover period. For more information, see Publication 590.

More information. For more information on rollovers, see Publication 590.

Rollover From One IRA Into Another

You can withdraw, tax free, all or part of the assets from one traditional IRA if you reinvest them within 60 days in the same or another traditional IRA. Because this is a rollover, you cannot deduct the amount that you reinvest in an IRA.

Waiting period between rollovers. Generally, if you make a tax-free rollover of any part of a distribution from a traditional IRA, you cannot, within a 1-year period, make a tax-free rollover of any later distribution from that same IRA. You also cannot make a tax-free rollover of any amount distributed, within the same 1-year period, from the IRA into which you made the tax-free rollover.

The 1-year period begins on the date you receive the IRA distribution, not on the date you roll it over into an IRA.

Example. You have two traditional IRAs, IRA-1 and IRA-2. You make a tax-free rollover of a distribution from IRA-1 into a new traditional IRA (IRA-3). You cannot, within 1 year of the distribution from IRA-1, make a tax-free rollover of any distribution from either IRA-1 or IRA-3 into another traditional IRA.

However, the rollover from IRA-1 into IRA-3 does not prevent you from making a tax-free rollover from IRA-2 into any other traditional IRA. This is because you have not, within the last year, rolled over, tax free, any distribution from IRA-2 or made a tax-free rollover into IRA-2.

Exception. For an exception for distributions from failed financial institutions, see Publication 590.

Partial rollovers. If you withdraw assets from a traditional IRA, you can roll over part of the withdrawal tax free 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). The amount you keep may be subject to the 10% additional tax on early distributions, discussed later under [What Acts Result in Penalties or Additional Taxes](#).

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

Inherited IRAs. If you inherit a traditional IRA from your spouse, you generally can roll it over, or you can choose to make the inherited IRA your own. See [Treating it as your own](#), earlier.

Not inherited from spouse. If you inherit a traditional 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 Publication 590.

Reporting rollovers from IRAs. Report any rollover from one traditional IRA to the same or another traditional IRA on lines 15a and 15b, Form 1040, or lines 11a and 11b, Form 1040A.

Enter the total amount of the distribution on Form 1040, line 15a, or Form 1040A, line 11a. If the total amount on Form 1040, line 15a, or Form 1040A, line 11a, was rolled over, enter zero on Form 1040, line 15b, or Form 1040A, line 11b. If the total distribution was not rolled over, enter the taxable portion of the part that was not rolled over on Form 1040, line 15b, or Form 1040A, line 11b. Put "Rollover" next to Form 1040, line 15b, or Form 1040A, line 11b. See the forms instructions.

If you rolled over the distribution into a qualified plan (other than an IRA) or you make the rollover in 2010, attach a statement explaining what you did.

Rollover From Employer's Plan Into an IRA

You can roll over into a traditional IRA all or part of an eligible rollover distribution you receive from your (or your deceased spouse's):

- Employer's qualified pension, profit-sharing or stock bonus plan,
- Annuity plan,
- Tax-sheltered annuity plan (section 403(b) plan), or
- Governmental deferred compensation plan (section 457 plan).

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

Eligible rollover distribution. Generally, an eligible rollover distribution is any distribution of all or part of the balance to your credit in a qualified retirement plan except the following.

1. A required minimum distribution (explained later under [When Must You Withdraw IRA Assets? \(Required Minimum Distributions\)](#)).
2. A hardship distribution.
3. 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.
4. Corrective distributions of excess contributions or excess deferrals, and any income allocable to the excess, or of excess annual additions and any allocable gains.

5. A loan treated as a distribution because it does not satisfy certain requirements either when made or later (such as upon default), unless the participant's accrued benefits are reduced (offset) to repay the loan.
6. Dividends on employer securities.
7. The cost of life insurance coverage.



TIP Any nontaxable amounts that you roll over into your traditional IRA become part of your basis (cost) in your IRAs. To recover your basis when you take distributions from your IRA, you must complete Form 8606 for the year of the distribution. See [Form 8606](#) under Distributions Fully or Partly Taxable, later.

Rollover by nonspouse beneficiary. A direct transfer from a deceased employee's qualified pension, profit-sharing or stock bonus plan, annuity plan, tax-sheltered annuity (section 403(b)) plan, or governmental deferred compensation (section 457) plan to an IRA set up to receive the distribution on your behalf can be treated as an eligible rollover distribution if you are the designated beneficiary of the plan and not the employee's spouse. The IRA is treated as an inherited IRA. For more information about inherited IRAs, see [Inherited IRAs](#), earlier.

Reporting rollovers from employer plans.

Enter the total distribution (before income tax or other deductions were withheld) on Form 1040, line 16a, or Form 1040A, line 12a. This amount should be shown in box 1 of Form 1099-R. From this amount, subtract any contributions (usually shown in box 5 of Form 1099-R) that were taxable to you when made. From that result, subtract the amount that was rolled over either directly or within 60 days of receiving the distribution. Enter the remaining amount, even if zero, on Form 1040, line 16b, or Form 1040A, line 12b. Also, enter "Rollover" next to Form 1040, line 16b, or Form 1040A, line 12b.

Transfers Incident to Divorce

If an interest in a traditional 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 detailed information, see Publication 590.

Converting From Any Traditional IRA to a Roth IRA

You can convert amounts from a traditional IRA into a Roth IRA if, for the tax year you make the withdrawal from the traditional IRA, both of the following requirements are met.

- Your modified AGI (explained later under [Roth IRAs](#)) is not more than \$100,000.
- You are not a married individual filing a separate return.

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



TIP For conversions after 2009 from a traditional IRA to a Roth IRA, the modified AGI and filing status requirements noted above do not apply.

Required distributions. You cannot convert amounts that must be distributed from your traditional IRA for a particular year (including the calendar year in which you reach age 70½) under the required distribution rules (discussed later).

Income. You must include in your gross income distributions from a traditional IRA that you would have had to include in income if you had not converted them into a Roth IRA. These amounts are included in income on your return for the year that you converted them from a traditional IRA to a Roth IRA. You do not include in gross income any part of a distribution from a traditional IRA that is a return of your basis, as discussed later.

If you must include any amount in your gross income, you may have to increase your withholding or make estimated tax payments. See [chapter 4](#).

Recharacterizations

You may be able to treat a contribution made to one type of IRA as having been made to a different type of IRA. This is called recharacterizing the contribution. More detailed information is in Publication 590.

How to recharacterize a contribution. To recharacterize a contribution, you generally must have the contribution transferred from the first IRA (the one to which it was made) to the second IRA in a trustee-to-trustee transfer. If the transfer is made by the due date (including extensions) for your tax return for the year during which the contribution was made, you can elect to treat the contribution as having been originally made to the second IRA instead of to the first IRA. If you recharacterize your contribution, you must do all three of the following.

- Include in the transfer any net income allocable to the contribution. If there was a loss, the net income you must transfer may be a negative amount.
- Report the recharacterization on your tax return for the year during which the contribution was made.
- Treat the contribution as having been made to the second IRA on the date that it was actually made to the first IRA.

No deduction allowed. You cannot deduct the contribution to the first IRA. Any net income you transfer with the recharacterized contribution is treated as earned in the second IRA.

Required notifications. To recharacterize a contribution, you must notify both the trustee of the first IRA (the one to which the contribution was actually made) and the trustee of the second IRA (the one to which the contribution is being moved) that you have elected to treat the contribution as having been made to the second IRA rather than the first. You must make the notifications by the date of the transfer. Only one notification is required if both IRAs are maintained by the same trustee. The notification(s) must include all of the following information.

- The type and amount of the contribution to the first IRA that is to be recharacterized.

- The date on which the contribution was made to the first IRA and the year for which it was made.
- A direction to the trustee of the first IRA to transfer in a trustee-to-trustee transfer the amount of the contribution and any net income (or loss) allocable to the contribution to the trustee of the second IRA.
- The name of the trustee of the first IRA and the name of the trustee of the second IRA.
- Any additional information needed to make the transfer.

Reporting a recharacterization. If you elect to recharacterize a contribution to one IRA as a contribution to another IRA, you must report the recharacterization on your tax return as directed by Form 8606 and its instructions. You must treat the contribution as having been made to the second IRA.

When Can You Withdraw or Use IRA Assets?

There are rules limiting use of your IRA assets and distributions from it. Violation of the rules generally results in additional taxes in the year of violation. See [What Acts Result in Penalties or Additional Taxes](#), later.

Contributions returned before the due date of return. If you made IRA contributions in 2009, 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, for each contribution you withdraw, both of the following conditions apply.

- You did not take a deduction for the contribution.
- You withdraw any interest or other income earned on the contribution. You can take into account any loss on the contribution while it was in the IRA when calculating the amount that must be withdrawn. If there was a loss, the net income earned on the contribution may be a negative amount.

Note. To calculate the amount you must withdraw, see Publication 590.

Earnings includible in income. 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 contributions, not in the year in which you withdraw them.



CAUTION Generally, except for any part of a withdrawal that is a return of nondeductible contributions (basis), any withdrawal of your contributions after the due date (or extended due date) of your return will be treated as a taxable distribution. Excess contributions can also be recovered tax free as discussed under [What Acts Result in Penalties or Additional Taxes](#), later.

Early distributions tax. The 10% additional tax on distributions made before you reach age 59½ does not apply to these tax-free withdrawals of your contributions. However, the distribution of interest or other income must be reported on Form 5329 and, unless the distribution qualifies as an exception to the age 59½ rule, it will be subject to this tax.

When Must You Withdraw IRA Assets? (Required Minimum Distributions)

You cannot keep funds in a traditional IRA indefinitely. Eventually they must be distributed. If there are no distributions, or if the distributions are not large enough, you may have to pay a 50% excise tax on the amount not distributed as required. See [Excess Accumulations \(Insufficient Distributions\)](#), later. The requirements for distributing IRA funds differ depending on whether you are the IRA owner or the beneficiary of a decedent's IRA.

Required minimum distribution. The amount that must be distributed each year is referred to as the required minimum distribution.

Required distributions not eligible for rollover. Amounts that must be distributed (required minimum distributions) during a particular year are not eligible for rollover treatment.

Waiver of required minimum distribution rules for 2009. For 2009, you are not required to take a minimum distribution from your traditional IRA (as well as most defined contribution plans). This waiver applies to IRA participants as well as to beneficiaries. The waiver also applies to you if you turn 70½ in 2009 and delay your 2009 required minimum distribution until April 1, 2010. The waiver does not apply to minimum required distributions for 2008, even if you turned 70½ in 2008 and chose to take the 2008 required minimum distribution by April 1, 2009.

If you are a beneficiary receiving distributions over a 5-year period, you can now waive the distribution for 2009, effectively taking distributions over a 6-year rather than a 5-year period.


If you received a distribution in 2009 that would otherwise be a required minimum distribution, you generally can roll over that amount into another IRA or eligible retirement plan within 60 days of the distribution.

For 2009 RMDs, the 60-day rollover period was extended so that it ended no earlier than November 30, 2009, or 60 days after the distribution was received, whichever was later.

IRA owners. If you are the owner of a traditional IRA, you must generally start receiving distributions from your IRA by April 1 of the year following the year in which you reach age 70½. April 1 of the year following the year in which you reach age 70½ is referred to as the required beginning date.

Distributions by the required beginning date. You must receive at least a minimum amount for each year starting with the year you reach age 70½ (your 70½ year). If you do not (or did not) receive that minimum amount in your 70½ year, then you must receive distributions for your 70½ year by April 1 of the next year.

If an IRA owner dies after reaching age 70½, but before April 1 of the next year, no minimum distribution is required because death occurred before the required beginning date.

 *Even if you begin receiving distributions before you attain age 70½, you must begin calculating and receiving required minimum distributions by your required beginning date.*

Distributions after the required beginning date. The required minimum distribution for any year after the year you turn 70½ must be made by December 31 of that later year.

Beneficiaries. If you are the beneficiary of a decedent's traditional IRA, the requirements for distributions from that IRA generally depend on whether the IRA owner died before or after the required beginning date for distributions.

More information. For more information, including how to figure your minimum required distribution each year and how to figure your required distribution if you are a beneficiary of a decedent's IRA, see Publication 590.

Are Distributions Taxable?

In general, distributions from a traditional IRA are taxable in the year you receive them.

Exceptions. Exceptions to distributions from traditional IRAs being taxable in the year you receive them are:

- Rollovers,
- Qualified charitable distributions, discussed later,
- Tax-free withdrawals of contributions, discussed earlier, and
- The return of nondeductible contributions, discussed later under [Distributions Fully or Partly Taxable](#).



Although a conversion of a traditional IRA is considered a rollover for Roth IRA purposes, it is not an exception to the rule that distributions from a traditional IRA are taxable in the year you receive them. Conversion distributions are includible in your gross income subject to this rule and the special rules for conversions explained in Publication 590.

Qualified charitable distributions. A qualified charitable distribution (QCD) is a nontaxable distribution made directly by the trustee of your IRA (other than a SEP or SIMPLE IRA) to an organization eligible to receive tax-deductible contributions. You must have been at least age 70½ when the distribution was made. Your total QCDs for the year cannot be more than \$100,000. If you file a joint return, your spouse can also have a QCD of up to \$100,000. However, the amount of the QCD is limited to the amount of the distribution that would otherwise be included in income. If your IRA includes nondeductible contributions, the distribution is first considered to be paid out of otherwise taxable income. For more information see Publication 590.



You cannot claim a charitable contribution deduction for any QCD not included in your income.

Ordinary income. Distributions from traditional IRAs that you include in income are taxed as ordinary income.

No special treatment. In figuring your tax, you cannot use the 10-year tax option or capital gain treatment that applies to lump-sum distributions from qualified employer plans.

Distributions Fully or Partly Taxable

Distributions from your traditional IRA 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 traditional IRA (or IRAs, if

you have more than one), you have no basis in your IRA. Because you have no basis in your IRA, any distributions are fully taxable when received. See [Reporting taxable distributions on your return](#), later.

Partly taxable. If you made nondeductible contributions or rolled over any after-tax amounts to any of your traditional 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.

Only the part of the distribution that represents nondeductible contributions and rolled over after-tax amounts (your cost basis) is tax free. If nondeductible contributions have been made or after-tax amounts have been rolled over to your IRA, distributions consist partly of nondeductible contributions (basis) and partly of deductible contributions, earnings, and gains (if there are any). Until all of your basis has been distributed, each distribution is partly nontaxable and partly taxable.

Form 8606. You must complete Form 8606 and attach it to your return if you receive a distribution from a traditional IRA and have ever made nondeductible contributions or rolled over after-tax amounts to any of your traditional IRAs. Using the form, you will figure the nontaxable distributions for 2009 and your total IRA basis for 2009 and earlier years.

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.

Distributions reported on Form 1099-R. If you receive a distribution from your traditional IRA, you will receive Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., or a similar statement. IRA distributions are shown in boxes 1 and 2a of Form 1099-R. A number or letter code in box 7 tells you what type of distribution you received from your IRA.

Withholding. Federal income tax is withheld from distributions from traditional IRAs unless you choose not to have tax withheld. See [chapter 4](#).

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 distributions from your traditional IRA.

Reporting taxable distributions on your return. Report fully taxable distributions, including early distributions on Form 1040, line 15b, or Form 1040A, line 11b (no entry is required on Form 1040, line 15a, or Form 1040A, line 11a). If only part of the distribution is taxable, enter the total amount on Form 1040, line 15a, or Form 1040A, line 11a, and the taxable part on Form 1040, line 15b, or Form 1040A, line 11b. You cannot report distributions on Form 1040EZ.

What Acts Result in Penalties or Additional Taxes?

The tax advantages of using traditional IRAs for retirement savings can be offset by additional taxes and penalties if you do not follow the rules.

There are additions to the regular tax for using your IRA funds in prohibited transactions. There are also additional taxes for the following activities.

- Investing in collectibles.
- Making excess contributions.
- Taking early distributions.
- Allowing excess amounts to accumulate (failing to take required distributions).

There are penalties for overstating the amount of nondeductible contributions and for failure to file a Form 8606, if required.

Prohibited Transactions

Generally, a prohibited transaction is any improper use of your traditional IRA by you, your beneficiary, or any disqualified person.

Disqualified persons include your fiduciary and members of your family (spouse, ancestor, lineal descendent, and any spouse of a lineal descendent).

The following are examples of prohibited transactions with a traditional IRA.

- Borrowing money from it.
- Selling property to it.
- Receiving unreasonable compensation for managing it.
- Using it as security for a loan.
- Buying property for personal use (present or future) with IRA funds.

Effect on an IRA account. Generally, if you or your beneficiary engages in a prohibited transaction in connection with your traditional IRA account at any time during the year, the account stops being an IRA as of the first day of that year.

Effect on you or your beneficiary. If your account stops being an IRA because you or your beneficiary engaged in a prohibited transaction, the account is treated as distributing all its assets to you at their fair market values on the first day of the year. If the total of those values is more than your basis in the IRA, you will have a taxable gain that is includible in your income. For information on figuring your gain and reporting it in income, see [Are Distributions Taxable](#), earlier. The distribution may be subject to additional taxes or penalties.

Taxes on prohibited transactions. If someone other than the owner or beneficiary of a traditional 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.

More information. For more information on prohibited transactions, see Publication 590.

Investment in Collectibles

If your traditional IRA invests in collectibles, the amount invested is considered distributed to you in the year invested. You may have to pay the 10% additional tax on early distributions, discussed later.

Collectibles. These include:

- Artworks,
- 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. It can also invest in certain platinum coins and certain gold, silver, palladium, and platinum bullion.

Excess Contributions

Generally, an excess contribution is the amount contributed to your traditional IRA(s) for the year that is more than the smaller of:

- The maximum deductible amount for the year. For 2009, this is \$5,000 (\$6,000 if you are 50 or older, or \$8,000 for certain employer bankruptcies), or
- Your taxable compensation for the year.

Tax on excess contributions. In general, if the excess contributions for a year are not withdrawn by the date your return for the year is due (including extensions), you are subject to a 6% tax. You must pay the 6% tax each year on excess amounts that remain in your traditional IRA at the end of your tax year. The tax cannot be more than 6% of the combined value of all your IRAs as of the end of your tax year.

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

How to treat withdrawn contributions. Do not include in your gross income an excess contribution that you withdraw from your traditional IRA before your tax return is due if both the following conditions are met.

- No deduction was allowed for the excess contribution.
- You withdraw the interest or other income earned on the excess contribution.

You can take into account any loss on the contribution while it was in the IRA when calculating the amount that must be withdrawn. If there was a loss, the net income you must withdraw may be a negative amount.

How to treat withdrawn interest or other income. 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 distributions, discussed later.

Excess contributions withdrawn after due date of return. In general, you must include all distributions (withdrawals) from your traditional IRA in your gross income. However, if the following conditions are met, you can withdraw excess

contributions from your IRA and not include the amount withdrawn in your gross income.

- Total contributions (other than rollover contributions) for 2009 to your IRA were not more than \$5,000 (\$6,000 if you are 50 or older, or \$8,000 for certain employer bankruptcies).
- You did not take a deduction for the excess contribution being withdrawn.

The withdrawal can take place at any time, even after the due date, including extensions, for filing your tax return for the year.

Excess contribution deducted in an earlier year. If you deducted an excess contribution in an earlier year for which the total contributions were not more than the maximum deductible amount for that year (\$2,000 for 2001 and earlier years, \$3,000 for 2002 through 2004 (\$3,500 if you were age 50 or older), \$4,000 for 2005 (\$4,500 if you were age 50 or older), \$4,000 for 2006 or 2007 (\$5,000 if you were age 50 or older), \$5,000 for 2008 (\$6,000 if you were age 50 or older)), you can still remove the excess from your traditional IRA and not include it in your gross income. To do this, file Form 1040X 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 traditional IRA is the result of a rollover and the excess occurred because the information the plan was required to give you was incorrect, 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 the part of the excess contribution caused by the incorrect information.

Early Distributions

You must include early distributions of taxable amounts from your traditional IRA in your gross income. Early distributions are also subject to an additional 10% tax. See the discussion of Form 5329 under [Reporting Additional Taxes](#), later, to figure and report the tax.

Early distributions defined. Early distributions generally are amounts distributed from your traditional IRA account or annuity before you are age 59½.

Age 59½ rule. Generally, if you are under age 59½, you must pay a 10% additional tax on the distribution of any assets (money or other property) from your traditional IRA. Distributions before you are age 59½ are called early distributions.

The 10% additional tax applies to the part of the distribution that you have to include in gross income. It is in addition to any regular income tax on that amount.

Exceptions. There are several exceptions to the age 59½ rule. Even if you receive a distribution before you are age 59½, you may not have to pay the 10% additional tax if you are in one of the following situations.

- You have unreimbursed medical expenses that are more than 7.5% of your adjusted gross income.

- The distributions are not more than the cost of your medical insurance.
- You are disabled.
- You are the beneficiary of a deceased IRA owner.
- You are receiving distributions in the form of an annuity.
- The distributions are not more than your qualified higher education expenses.
- You use the distributions to buy, build, or rebuild a first home.
- The distribution is due to an IRS levy of the qualified plan.
- The distribution is a qualified reservist distribution.

Most of these exceptions are explained in Publication 590.

Note. Distributions that are timely and properly rolled over, as discussed earlier, are not subject to either regular income tax or the 10% additional tax. Certain withdrawals of excess contributions after the due date of your return are also tax free and therefore not subject to the 10% additional tax. (See *Excess contributions withdrawn after due date of return*, earlier.) This also applies to transfers incident to divorce, as discussed earlier.

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

Additional 10% tax. The additional tax on early distributions is 10% of the amount of the early distribution that you must include in your gross income. This tax is in addition to any regular income tax resulting from including the distribution in income.

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

More information. For more information on early distributions, see Publication 590.

Excess Accumulations (Insufficient Distributions)

You cannot keep amounts in your traditional 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 the year in which you reach age 70½ must be made by December 31 of that later year.

Waiver for 2009. No minimum distribution is required for 2009.

Tax on excess. If distributions are less than the required minimum distribution for the year, you may have to pay a 50% excise tax for that year on the amount not distributed as required. However, for 2009, you are not required to take a minimum distribution from your IRA. This is true even if you turn 70½ in 2009 and your first distribution is not required until April 1, 2010.

Request to waive 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 waived. If you believe you qualify for this

relief, attach a statement of explanation and complete Form 5329 as instructed under *Waiver of tax* in the Instructions for Form 5329.

Exemption from tax. If you are unable to take required distributions because you have a traditional 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.

More information. For more information on excess accumulations, see Publication 590.

Reporting Additional Taxes

Generally, you must use Form 5329 to report the tax on excess contributions, early distributions, and excess accumulations. If you must file Form 5329, you cannot use Form 1040A or Form 1040EZ.

Filing a tax return. If you must file an individual income tax return, complete Form 5329 and attach it to your Form 1040. Enter the total additional taxes due on Form 1040, line 58.

Not filing a tax return. If you do not have to file a tax return but do have to pay one of the additional taxes mentioned earlier, file the completed Form 5329 with the IRS at the time and place you would have filed your Form 1040. Be sure to include your address on page 1 and your

Worksheet 17-2. Modified Adjusted Gross Income for Roth IRA Purposes

Keep for Your Records



Use this worksheet to figure your modified adjusted gross income for Roth IRA purposes.

1.	Enter your adjusted gross income from Form 1040, line 38; or Form 1040A, line 22	1.	_____
2.	Enter any income resulting from the conversion of an IRA (other than a Roth IRA) to a Roth IRA, a rollover from a qualified retirement plan to a Roth IRA, and a minimum required distribution from an IRA (for conversions and rollovers from qualified retirement plans only)	2.	_____
3.	Subtract line 2 from line 1	3.	_____
4.	Enter any traditional IRA deduction from Form 1040, line 32; or Form 1040A, line 17	4.	_____
5.	Enter any student loan interest deduction from Form 1040, line 33; or Form 1040A, line 18	5.	_____
6.	Enter any tuition and fees deduction from Form 1040, line 34; or Form 1040A, line 19	6.	_____
7.	Enter any domestic production activities deduction from Form 1040, line 35	7.	_____
8.	Enter any foreign earned income and/or housing exclusion from Form 2555, line 45; or Form 2555-EZ, line 18	8.	_____
9.	Enter any foreign housing deduction from Form 2555, line 50	9.	_____
10.	Enter any excludable savings bond interest from Form 8815, line 14	10.	_____
11.	Enter any excluded employer-provided adoption benefits from Form 8839, line 30	11.	_____
12.	Add the amounts on lines 3 through 11	12.	_____
13.	Enter:		
	• \$176,000 if married filing jointly or qualifying widow(er)		
	• \$10,000 if married filing separately and you lived with your spouse at any time during the year		
	• \$120,000 for all others	13.	_____

If yes, Is the amount on line 12 more than the amount on line 13? **then** see the **Note** below.
If no, **then** the amount on line 12 is your **modified AGI** for Roth IRA purposes.

Note. If the amount on line 12 is more than the amount on line 13 and you have other income or loss items, such as social security income or passive activity losses, that are subject to AGI-based phaseouts, you can refigure your AGI solely for the purpose of figuring your modified AGI for Roth IRA purposes. When figuring your modified AGI for conversion purposes, refigure your AGI without taking into account any income from conversions or minimum required distributions from IRAs. (If you receive social security benefits, use *Worksheet 1* in *Appendix B* of Publication 590 to refigure your AGI.) Then go to list item (2) under *Modified AGI* or line 3 above in *Worksheet 17-2* to refigure your modified AGI. If you do not have other income or loss items subject to AGI-based phaseouts, your modified AGI for Roth IRA purposes is the amount on line 12.

signature and date on page 2. Enclose, but do not attach, a check or money order payable to the United States Treasury for the tax you owe, as shown on Form 5329. Enter your social security number and "2009 Form 5329" on your check or money order.

Form 5329 not required. You do not have to use Form 5329 if either of the following situations exist.

- Distribution code 1 (early distribution) is correctly shown in box 7 of Form 1099-R. If you do not owe any other additional tax on a distribution, multiply the taxable part of the early distribution by 10% and enter the result on Form 1040, line 58. Put "No" to the left of the line 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.
- If you rolled over part or all of a distribution from a qualified retirement plan, the part rolled over is not subject to the tax on early distributions.

Roth IRAs

Regardless of your age, you may be able to establish and make nondeductible contributions to a retirement plan called a Roth IRA.

Contributions not reported. You do not report Roth IRA contributions on your return.

What Is a Roth IRA?

A Roth IRA is an individual retirement plan that, except as explained in this chapter, is subject to the rules that apply to a traditional IRA (defined earlier). It can be either an account or an annuity. Individual retirement accounts and annuities are described in Publication 590.

To be a Roth IRA, the account or annuity must be designated as a Roth IRA when it is set up. A deemed IRA can be a Roth IRA, but neither a SEP IRA nor a SIMPLE IRA can be designated as a Roth IRA.

Unlike a traditional IRA, you cannot deduct contributions to a Roth IRA. But, if you satisfy the requirements, qualified distributions (discussed later) are tax free. Contributions can be made to your Roth IRA after you reach age 70½ and you can leave amounts in your Roth IRA as long as you live.

When Can a Roth IRA Be Set Up?

You can set up a Roth IRA at any time. However, the time for making contributions for any year is limited. See [When Can You Make Contributions](#), later under [Can You Contribute to a Roth IRA?](#)

Can You Contribute to a Roth IRA?

Generally, you can contribute to a Roth IRA if you have taxable compensation (defined later) and your modified AGI (defined later) is less than:

Table 17-3. Effect of Modified AGI on Roth IRA Contribution

This table shows whether your contribution to a Roth IRA is affected by the amount of your modified adjusted gross income (modified AGI).

IF you have taxable compensation and your filing status is...	AND your modified AGI is...	THEN...
married filing jointly, or qualifying widow(er)	less than \$166,000	you can contribute up to \$5,000 (\$6,000 if you are 50 or older in 2009).
	at least \$166,000 but less than \$176,000	the amount you can contribute is reduced as explained under <i>Contribution limit reduced in Publication 590</i> .
	\$176,000 or more	you cannot contribute to a Roth IRA.
married filing separately and you lived with your spouse at any time during the year	zero (-0-)	you can contribute up to \$5,000 (\$6,000 if you are 50 or older in 2009).
	more than zero (-0-) but less than \$10,000	the amount you can contribute is reduced as explained under <i>Contribution limit reduced in Publication 590</i> .
	\$10,000 or more	you cannot contribute to a Roth IRA.
single, head of household, or married filing separately and you did not live with your spouse at any time during the year	less than \$105,000	you can contribute up to \$5,000 (\$6,000 if you are 50 or older in 2009).
	at least \$105,000 but less than \$120,000	the amount you can contribute is reduced as explained under <i>Contribution limit reduced in Publication 590</i> .
	\$120,000 or more	you cannot contribute to a Roth IRA.

- \$176,000 for married filing jointly or qualifying widow(er),
 - \$120,000 for single, head of household, or married filing separately and you did not live with your spouse at any time during the year, or
 - \$10,000 for married filing separately and you lived with your spouse at any time during the year.
- Roth IRA conversions included on Form 1040, line 15b; or Form 1040A, line 11b.
 - Roth IRA rollovers from qualified retirement plans included on Form 1040, line 16b; or Form 1040A, line 12b.
 - Minimum required distributions from IRAs (for conversions and rollovers from qualified retirement plans only).



You may be eligible to claim a credit for contributions to your Roth IRA. For more information, see [chapter 37](#).

Is there an age limit for contributions? Contributions can be made to your Roth IRA regardless of your age.

Can you contribute to a Roth IRA for your spouse? You can contribute to a Roth IRA for your spouse provided the contributions satisfy the spousal IRA limit (discussed in [How Much Can Be Contributed](#) under *Traditional IRAs*), you file jointly, and your modified AGI is less than \$176,000.

Compensation. Compensation includes wages, salaries, tips, professional fees, bonuses, and other amounts received for providing personal services. It also includes commissions, self-employment income, nontaxable combat pay, military differential pay, and taxable alimony and separate maintenance payments.

Modified AGI. Your modified AGI for Roth IRA purposes is your adjusted gross income (AGI) as shown on your return modified as follows.

1. Subtract the following.

2. Add the following deductions and exclusions:

- Traditional IRA deduction,
- Student loan interest deduction,
- Tuition and fees deduction,
- Domestic production activities deduction,
- Foreign earned income exclusion,
- Foreign housing exclusion or deduction,
- Exclusion of qualified savings bond interest shown on Form 8815, and
- Exclusion of employer-provided adoption benefits shown on Form 8839.

You can use Worksheet 17-2 to figure your modified AGI.

How Much Can Be Contributed?

The contribution limit for Roth IRAs generally depends on whether contributions are made only to Roth IRAs or to both traditional IRAs and Roth IRAs.

Roth IRAs only. If contributions are made only to Roth IRAs, your contribution limit generally is the lesser of the following amounts.

- \$5,000 (\$6,000 if you are 50 or older in 2009).
- Your taxable compensation.

However, if your modified AGI is above a certain amount, your contribution limit may be reduced, as explained later under [Contribution limit reduced](#).

Roth IRAs and traditional IRAs. If contributions are made to both Roth IRAs and traditional IRAs established for your benefit, your contribution limit for Roth IRAs generally is the same as your limit would be if contributions were made only to Roth IRAs, but then reduced by all contributions for the year to all IRAs other than Roth IRAs. Employer contributions under a SEP or SIMPLE IRA plan do not affect this limit.

This means that your contribution limit is generally the lesser of the following amounts.

- \$5,000 (\$6,000 if you are 50 or older in 2009) minus all contributions (other than employer contributions under a SEP or SIMPLE IRA plan) for the year to all IRAs other than Roth IRAs.
- Your taxable compensation minus all contributions (other than employer contributions under a SEP or SIMPLE IRA plan) for the year to all IRAs other than Roth IRAs.

However, if your modified AGI is above a certain amount, your contribution limit may be reduced, as explained later under [Contribution limit reduced](#).

Catch-up contributions in certain employer bankruptcies. If you participated in a 401(k) plan and the employer who maintained the plan went into bankruptcy, you may be able to contribute an additional \$3,000 to your IRA. See Publication 590 to see if you qualify to make these additional contributions. If you qualify and choose to make these catch-up contributions, the higher contribution and deduction limits for individuals who are age 50 or older do not apply. The most that you can contribute to your Roth IRA is \$8,000.

Contribution limit reduced. If your modified AGI is above a certain amount, your contribution limit is gradually reduced. Use Table 17-3 to determine if this reduction applies to you.

Figuring the reduction. If the amount you can contribute to your Roth IRA is reduced, see Publication 590 for how to figure the reduction.

When Can You Make Contributions?

You can make contributions to a Roth IRA for a year at any time during the year or by the due date of your return for that year (not including extensions).



You can make contributions for 2009 by the due date (not including extensions) for filing your 2009 tax return.

What if You Contribute Too Much?

A 6% excise tax applies to any excess contribution to a Roth IRA.

Excess contributions. These are the contributions to your Roth IRAs for a year that equal the total of:

1. Amounts contributed for the tax year to your Roth IRAs (other than amounts properly and timely rolled over from a Roth IRA or properly converted from a traditional IRA or rolled over from a qualified retirement plan, as described later) that are more than your contribution limit for the year, plus
2. Any excess contributions for the preceding year, reduced by the total of:
 - a. Any distributions out of your Roth IRAs for the year, plus
 - b. Your contribution limit for the year minus your contributions to all your IRAs for the year.

Withdrawal of excess contributions. For purposes of determining excess contributions, any contribution that is withdrawn on or before the due date (including extensions) for filing your tax return for the year is treated as an amount not contributed. This treatment applies only if any earnings on the contributions are also withdrawn. The earnings are considered to have been earned and received in the year the excess contribution was made.

Applying excess contributions. If contributions to your Roth IRA for a year were more than the limit, you can apply the 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.

Can You Move Amounts Into a Roth IRA?

You may be able to convert amounts from either a traditional, SEP, or SIMPLE IRA into a Roth IRA. You may be able to roll amounts over from a qualified retirement plan to a Roth IRA. You may be able to recharacterize contributions made to one IRA as having been made directly to a different IRA. You can roll amounts over from a designated Roth account or from one Roth IRA to another Roth IRA.

Conversions

You can convert a traditional IRA to a Roth IRA. The conversion is treated as a rollover, regardless of the conversion method used. Most of the rules for rollovers, described earlier under [Rollover From One IRA Into Another](#) under [Traditional IRAs](#), apply to these rollovers. However, the 1-year waiting period does not apply.

Conversion methods. You can convert amounts from a traditional IRA to a Roth IRA in any of the following ways.

- **Rollover.** You can receive a distribution from a traditional IRA and roll it over (contribute it) to a Roth IRA within 60 days after the distribution.
- **Trustee-to-trustee transfer.** You can direct the trustee of the traditional IRA to transfer an amount from the traditional IRA to the trustee of the Roth IRA.
- **Same trustee transfer.** If the trustee of the traditional IRA also maintains the Roth IRA, you can direct the trustee to transfer

an amount from the traditional IRA to the Roth IRA.

Same trustee. Conversions made with the same trustee can be made by redesignating the traditional IRA as a Roth IRA, rather than opening a new account or issuing a new contract.

Rollover from an employer's plan into a Roth IRA. You can roll over into a Roth IRA all or part of an eligible rollover distribution you receive from your (or your deceased spouse's):

- Employer's qualified pension, profit-sharing or stock bonus plan,
- Annuity plan,
- Tax-sheltered annuity plan (section 403(b) plan), or
- Governmental deferred compensation plan (section 457 plan).

Any amount rolled over is subject to the same rules for converting a traditional IRA into a Roth IRA. Also, the rollover contribution must meet the rollover requirements that apply to the specific type of retirement plan.

Income. You must include in your gross income distributions from a qualified retirement plan that you would have had to include in income if you had not rolled them over into a Roth IRA. You do not include in gross income any part of a distribution from a qualified retirement plan that is a return of contributions (after-tax contributions) to the plan that were taxable to you when paid.



If you must include any amount in your gross income, you may have to increase your withholding or make estimated tax payments. See Publication 505, Tax Withholding and Estimated Tax.

For more information, see *Rollover From Employer's Plan Into a Roth IRA* in chapter 2 of Publication 590.

Converting from a SIMPLE IRA. Generally, you can convert an amount in your SIMPLE IRA to a Roth IRA under the same rules explained earlier under [Converting From Any Traditional IRA to a Roth IRA](#).

However, you cannot convert any amount distributed from the SIMPLE IRA during the 2-year period beginning on the date you first participated in any SIMPLE IRA plan maintained by your employer.

More information. For more detailed information on conversions, see Publication 590.

Failed Conversions and Rollovers

If, when you converted amounts from a traditional IRA or SIMPLE IRA into a Roth IRA or when you rolled over amounts from a qualified retirement plan into a Roth IRA, you expected to have modified AGI of less than \$100,000 and a filing status other than married filing separately, but your expectations did not come true, you have made a failed conversion or failed rollover.

Note. For tax years starting in 2010, the \$100,000 modified AGI limit on conversions and rollovers is eliminated and married taxpayers filing a separate return can now convert or rollover amounts to a Roth IRA.

Results of failed conversions and failed rollovers. If the converted or rolled over amount (contribution) is not recharacterized (explained earlier), the contribution will be treated as a regular contribution to the Roth IRA and subject to the following tax consequences.

- A 6% excise tax per year will apply to any excess contribution not withdrawn from the Roth IRA.
- The distributions from the traditional IRA or qualified retirement plan must be included in your gross income.
- The 10% additional tax on early distributions may apply to any distribution.

How to avoid. You must move the amount converted or rolled over (including all earnings from the date of conversion or roll over) into a traditional IRA by the due date (including extensions) for your tax return for the year during which you made the conversion or roll over to the Roth IRA. You do not have to include this distribution (withdrawal) in income. See [Recharacterizations](#), earlier, for more information.

Rollover From a Roth IRA

You can withdraw, tax free, all or part of the assets from one Roth IRA if you contribute them within 60 days to another Roth IRA. Most of the rules for rollovers, explained earlier under [Rollover From One IRA Into Another](#) under [Traditional IRAs](#), apply to these rollovers.

Rollover from designated Roth account. A rollover from a designated Roth account can only be made to another designated Roth account or to a Roth IRA.

Are Distributions Taxable?

You do not include in your gross income qualified distributions or distributions that are a return of your regular contributions from your Roth IRA(s). You also do not include distributions from your Roth IRA that you roll over tax free into another Roth IRA. You may have to include part of other distributions in your income. See [Ordering rules for distributions](#), later.

What are qualified distributions? A qualified distribution is any payment or distribution from your Roth IRA that meets the following requirements.

1. It is made after the 5-year period beginning with the first taxable year for which a contribution was made to a Roth IRA set up for your benefit, and
2. The payment or distribution is:
 - a. Made on or after the date you reach age 59½,
 - b. Made because you are disabled,
 - c. Made to a beneficiary or to your estate after your death, or
 - d. To pay up to \$10,000 (lifetime limit) of certain qualified first-time homebuyer amounts. See Publication 590 for more information.

Additional tax on distributions of conversion and certain rollover contributions within 5-year period. If, within the 5-year period starting with the first day of your tax year in which you convert an amount from a traditional IRA or rollover an amount from a qualified retirement plan to a Roth IRA, you take a distribution from a Roth IRA, you may have to pay the 10% additional tax on early distributions. You generally must pay the 10% additional tax on any amount attributable to the part of the amount

converted or rolled over (the conversion or rollover contribution) that you had to include in income. A separate 5-year period applies to each conversion and rollover. See [Ordering rules for distributions](#), later, to determine the amount, if any, of the distribution that is attributable to the part of the conversion or rollover contribution that you had to include in income.

Additional tax on other early distributions. Unless an exception applies, you must pay the 10% additional tax on the taxable part of any distributions that are not qualified distributions. See Publication 590 for more information.

Ordering rules for distributions. If you receive a distribution from your Roth IRA that is not a qualified distribution, part of it may be taxable. There is a set order in which contributions (including conversion contributions and rollover contributions from qualified retirement plans) and earnings are considered to be distributed from your Roth IRA. Regular contributions are distributed first. See Publication 590 for more information.

Must you withdraw or use Roth IRA assets?

You are not required to take distributions from your Roth IRA at any age. The minimum distribution rules that apply to traditional IRAs do not apply to Roth IRAs while the owner is alive. However, after the death of a Roth IRA owner, certain of the minimum distribution rules that apply to traditional IRAs also apply to Roth IRAs.

More information. For more detailed information on Roth IRAs, see Publication 590.

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