

ST20-07 IRA Non-Deductible Distributions

IRA non-deductible contributions are made when a deductible contribution is limited by income and/or the taxpayer having a retirement plan. When non-deductible contributions are made, they are tracked on form 8606. When a distribution is taken from an IRA that has had non-deductible contribution, the non-taxable portion of the distribution is calculated on form 8606.

Non-deductible contributions can be made up to the maximum allowable IRA contribution. For tax year 2020, the maximum allowable contribution is \$6,000(\$7,000 if taxpayer is 50 or older years of age). The total of all IRA contributions (deductible, non-deductible and Roth) cannot exceed the maximum allowable contribution.

References:

- Instructions for Form 8606
- IRS Pub NTTC Modified 4012 Tabs E-1,9 and D-30,33,34,39
- IRS Pub 590A

Form 8606 Description

- Part I – For reporting non-deductible contributions as well as distributions
 - Distributions reported here only if there were non-deductible contributions
- Part II – Conversions from traditional IRAs to Roth IRAs– See separate Special Topic
- Part III – Non-qualified distributions from Roth IRAs – **Out of Scope** unless it is an error and it is a qualified distribution

Reporting Non-Deductible Contributions

- Non-Deductible contributions **MUST** be reported on Form 8606 Part I
 - Creates a basis for IRA Withdrawals
 - If non-deductible contributions are not reported on the 8606, there is no tax-free benefit on the distribution
- Form 8606 provides cumulative record
 - Non-Deductible Contributions (cost basis) for distributions

IRA Distributions after Previous Years of Non-deductible Contributions (See example for details)

- If there has been non-deductible contribution(s) to an IRA, a portion of the distribution shown on a 1099-R is not taxable.
 - The taxpayer must have the 8606. If non-deductible distributions were taken in the previous year, the 8606 should be part of that return.
 - Complete the 1099-R as you normally would
 - Enter form 8606 in the TaxSlayer search box
 - Complete the 8606 inputs as shown below
 - Go to “Preview Return” and note the amounts in box 13 and box 15 of form 8606
 - Enter the taxable portion (8606 line 15c) in the 1099-R box 2a
 - Enter the amount on the Form 8606 box 13 in the NJ Checklist as adjustments to NJ 1040 box 20b.

ST20-07 IRA Non-Deductible Distributions

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

A taxpayer is 61 years old. He has taken a \$50,000 distribution from an IRA in which he had made \$12,500 in non-deductible contributions in previous years. His total of all his IRAs is \$450,000. He had \$32,000 of W-2 income and has a retirement plan at work. There were no other distributions from IRAs. The taxpayers AGI is \$80,750.

Step 1 – Enter the 1099-R for the IRA distribution. Leave Box 2 the taxable amount the same as box 1. Complete any other boxes as required from the paper 1099-R. Be sure you check the IRA/SEP/ Simple box” in box 7.

Step 2 – If there are any IRA contributions for the tax year enter them in Adjustments – IRA contributions. TSO will determine if the contributions are deductible or non-deductible based on if the taxpayer has a retirement plan and the taxpayer’s AGI.

Step 3– Use the Forms Search Box to go to the form 8606 entry screen.

Step 4 - Enter remaining basis (from prior year Form 8606, year-end value of all IRAs (provided by taxpayer), and the amount of the distribution. If there are any non-deductible contributions between 1/1/19 and 4/17/19 enter them also.

Total Basis Chart

IF the last Form 8606 you filed was for . . .	THEN enter on line 2 . . .
A year after 2000 :	The amount from line 14 of that Form 8606
A year after 1992 and before 2001	The amount from line 12 of that Form 8606
A year after 1988 and before 1993	The amount from line 14 of that Form 8606
1988	The total of the amounts on lines 7 and 16 of that Form 8606
1987	The total of the amounts on lines 4 and 13 of that Form 8606

ST20-07 IRA Non-Deductible Distributions

Form 8606 - Nondeductible IRAs

CANCEL

CONTINUE

Nondeductible contributions to Traditional IRAs

Form belongs to **Taxpayer**.

Total basis in traditional IRAs

\$ 12500

Enter basis from previous year's 8606. See the chart above for the line number on the previous year's 8606.

Contributions made from January 1 through 4/15/2020

Be sure to also include this amount in the total contributions entered in the IRA Deductions section located in the Adjustments Menu.

\$ 5000

Enter any contributions from Jan. 1, 2021 to Apr. 15, 2021. IRA Deduction worksheet must be completed for this value to carry to the 8606.

Total value of all your traditional, SEP, and SIMPLE IRAs as of December 31, 2019

\$ 450000

Enter the total value of all IRAs at the end of the current tax year

Outstanding rollovers

\$

Enter Traditional IRA distributions (reported to you on form 1099-R) received during 2019.

DO NOT include rollovers, qualified charitable distributions, a one-time distribution to fund an HSA, conversions to a Roth IRA, certain returned contributions, or recharacterizations of traditional IRA contributions.

\$ 50000

Enter all IRA distributions received in the current tax year

Net amount converted from traditional, SEP, and SIMPLE IRAs to Roth IRAs in 2019

\$

Conversions from IRAs to Roth IRAs

Taxable amounts from this form will **NOT** carry to the 1040. Any taxable amount should be entered or adjusted on your 1099-R in box 2a.

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Distributions from Roth IRAs

Total nonqualified distributions from Roth IRAs in 2019

\$

Basis in Roth IRA contributions

\$

Basis in Roth IRA conversions

\$

Qualified first-home buyers expenses

\$

Nonqualified distributions from Roth IRAs are OUT OF SCOPE unless it is an error and it is a qualified distribution

Taxable amounts from this form will NOT carry to the 1040. Any taxable amount should be entered or adjusted on your 1099-R in box 2a.

ST20-07 IRA Non-Deductible Distributions

Step 5 – Return to the Adjustments screen and click on the Print icon next to Nondeductible IRAs

Nondeductible IRAs Form 8606 Print

Form 8606 Department of the Treasury Internal Revenue Service (99)	Nondeductible IRAs ▶ Go to www.irs.gov/Form8606 for instructions and the latest information. ▶ For coronavirus-related distributions, see the instructions. ▶ Attach to 2020 Form 1040, 1040-SR, or 1040-NR.	OMB No. 1545-0074 <div style="text-align: center; font-size: 24pt; font-weight: bold;">2020</div> Attachment Sequence No. 48
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Name. If married, file a separate form for each spouse required to file 2020 Form 8606. See instructions. **Your social security number**
XXX-XX-1234

NONDEDUCTIBLE IRA

Fill in Your Address Only if You Are Filing This Form by Itself and Not With Your Tax Return

Home address (number and street, or P.O. box if mail is not delivered to your home)		Apt. no.
City, town or post office, state, and ZIP code. If you have a foreign address, also complete the spaces below (see instructions).		
Foreign country name	Foreign province/state/county	Foreign postal code

Part I Nondeductible Contributions to Traditional IRAs and Distributions From Traditional, SEP, and SIMPLE IRAs
 Complete this part only if one or more of the following apply.

- You made nondeductible contributions to a traditional IRA for 2020.
- You took distributions from a traditional, SEP, or SIMPLE IRA in 2020 **and** you made nondeductible contributions to a traditional IRA in 2020 or an earlier year. For this purpose, a distribution does not include a rollover (other than a repayment of a qualified disaster distribution (see 2020 Forms 8915-C, 8915-D, and 8915-E)), qualified charitable distribution, one-time distribution to fund an HSA, conversion, recharacterization, or return of certain contributions.
- You converted part, but not all, of your traditional, SEP, and SIMPLE IRAs to Roth IRAs in 2020 **and** you made nondeductible contributions to a traditional IRA in 2020 or an earlier year.

1	Enter your nondeductible contributions to traditional IRAs for 2020, including those made for 2020 from January 1, 2021, through April 15, 2021. See instructions		1	
2	Enter your total basis in traditional IRAs. See instructions		2	12500
3	Add lines 1 and 2		3	12500
	<div style="border: 1px solid black; padding: 2px; display: inline-block; width: 200px;"> In 2020, did you take a distribution from traditional, SEP, or SIMPLE IRAs, or make a Roth IRA conversion? </div> No → Enter the amount from line 3 on line 14. Do not complete the rest of Part I. Yes → Go to line 4.			
4	Enter those contributions included on line 1 that were made from January 1, 2021, through April 15, 2021		4	
5	Subtract line 4 from line 3		5	12500
6	Enter the value of all your traditional, SEP, and SIMPLE IRAs as of December 31, 2020, plus any outstanding rollovers. Subtract any repayments of qualified disaster distributions (see 2020 Forms 8915-C, 8915-D, and 8915-E)	450000	6	
7	Enter your distributions from traditional, SEP, and SIMPLE IRAs in 2020. Do not include rollovers (other than repayments of qualified disaster distributions (see 2020 Forms 8915-C, 8915-D, and 8915-E)), qualified charitable distributions, a one-time distribution to fund an HSA, conversions to a Roth IRA, certain returned contributions, or recharacterizations of traditional IRA contributions (see instructions)	50000	7	
8	Enter the net amount you converted from traditional, SEP, and SIMPLE IRAs to Roth IRAs in 2020. Also enter this amount on line 16		8	
9	Add lines 6, 7, and 8	500000	9	
10	Divide line 5 by line 9. Enter the result as a decimal rounded to at least 3 places. If the result is 1.000 or more, enter "1.000"	×0.025	10	
11	Multiply line 8 by line 10. This is the nontaxable portion of the amount you converted to Roth IRAs. Also enter this amount on line 17		11	
12	Multiply line 7 by line 10. This is the nontaxable portion of your distributions that you did not convert to a Roth IRA	1250	12	
13	Add lines 11 and 12. This is the nontaxable portion of all your distributions		13	1250
14	Subtract line 13 from line 3. This is your total basis in traditional IRAs for 2020 and earlier years		14	11250
15a	Subtract line 12 from line 7		15a	48750
15b	Enter the amount on line 15a attributable to qualified disaster distributions from 2020 Forms 8915-C, 8915-D, and 8915-E (see instructions). Also, enter this amount on 2020 Form 8915-C, line 23; 2020 Form 8915-D, line 22; or 2020 Form 8915-E, line 13, as applicable		15b	
15c	Taxable amount. Subtract line 15b from line 15a. If more than zero, also include this amount on 2020 Form 1040, 1040-SR, or 1040-NR, line 4b Note: You may be subject to an additional 10% tax on the amount on line 15c if you were under age 59½ at the time of the distribution. See instructions.	48750	15c	

Amount from line 13 to be entered on NJ Checklist as Adjustments to line 20b

Amount from line 15c is to be entered in the 1099-R Box 2a.

ST20-07 IRA Non-Deductible Distributions

Step 6- Go back to the TaxSlayer return. If there is only one IRA distribution, enter the taxable amount (Form 8606-line 15C) in Box 2a of the 1099-R. If there is more than one IRA distribution, subtract the nontaxable portion (Form 8606 line 13) from the Box 1 amount on one of the IRAs. Enter the result into Box 2a of that same 1099-R. All the remaining IRAs will be 100% taxable.

Whose 1099-R is this?	1099-R Information	
Recipient Taxpayer	1 Gross Distribution * \$ 50000	
Payer Information	2a Taxable Amount \$ 48750	Step 6 – Enter taxable amount from the 8606-line 15c to the 1099-R box 2a
Payer's ID *		

Step 7 - Enter the non-taxable portion on the NJ Checklist as Adjustments to line 20b.

	= 0 = 0 Total																
Adjustments to Line 20b - Excludable Amounts of IRAs, Pensions and Annuities	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 5%; text-align: right;">+</td> <td style="width: 10%; text-align: right;">1,250</td> <td>Pension with After-Tax Contributions</td> </tr> <tr> <td style="text-align: right;">+</td> <td></td> <td>Govt. Employee Pension</td> </tr> <tr> <td style="text-align: right;">+</td> <td></td> <td>IRA/403b/457b/TSP</td> </tr> <tr> <td style="text-align: right;">+</td> <td></td> <td>3 Year Rule (first 3 years)</td> </tr> <tr> <td style="text-align: right;">=</td> <td style="text-align: right;">1,250</td> <td>Total</td> </tr> </table>	+	1,250	Pension with After-Tax Contributions	+		Govt. Employee Pension	+		IRA/403b/457b/TSP	+		3 Year Rule (first 3 years)	=	1,250	Total	"Tax-Exempt Pensions, Annuities, and IRA Withdrawals"
+	1,250	Pension with After-Tax Contributions															
+		Govt. Employee Pension															
+		IRA/403b/457b/TSP															
+		3 Year Rule (first 3 years)															
=	1,250	Total															
Adjustments to Line 26 – Other																	

Step 6 - Non-taxable portion to go on NJ Line 20b from 8606 line 13

A second Form 8606 may be required if each spouse has basis in their own IRAs.