

Income –Non Deductible Form 8606

Distributions from traditional IRAs are fully taxable unless nondeductible contributions have been made. Form 8606, Nondeductible IRAs, is used to keep track of nondeductible contributions. Taxpayers who made nondeductible contributions are in scope for AARP Foundation Tax-Aide counselors.

Learning Objectives

- Calculate the non-taxable portion of an IRA distribution using Form 8606
- Determine how to report the Form 8606 on the tax return

Example: Dick contributed \$1000 a year to a traditional IRA where \$200 was non-deductible. Each year, he deducted \$800 of these contributions from his income. This year he received his first distribution from the traditional IRA. A portion of the distribution is non-taxable and determined on Form 8606. Dick will pay income tax only on the distributions he receives, which represent the contributions he made and deducted, as well as the earnings on these contributions over the years.

Getting Started:



Study the associated Pub 4491 VITA/TCE Training Guide Chapter 12-4



Open Volunteer Resource Guide, Tab E-1 ... in scope for AARP Tax-Aide.

Practice Lab

NTTC Workbook, TY2018. Comprehensive Exercise - Meadows

Meadows has some nondeductible basis in an IRA distribution, page 129.

1. Find the nondeductible info. IRS agreed to let AARP Tax-Aide handle this as "in scope". (The 4491 and 4012 does not help and says it is out of scope.)

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- In 2017 Workbook, the prior year Form 8606 was provided. For 2018, the facts are provided by the taxpayer without showing a Form 8606.

2. The steps are:

Input the Form 1099-R with 2a blank

Open a TaxSlayer - Form 8606:

- Total basis in traditional IRAs, Line2, input 9500
- Contributions made from January 1 through 4/17/2018, Line 4, 0
- Total value of all your traditional, SEP, and SIMPLE IRAs as of December 31, 2018, Line 6, input 57239
- Enter Traditional IRA distributions (reported to you on Form 1099-R) during 2018, Line 7, input 3700

Go to Summary/Print and find the Form 8606 pdf

The taxable amount is at the bottom of the Form 8606, Line 15c

Go back to the TaxSlayer input for the Form 1099-R and put the taxable amount in 1099-R, Box 2a

<input type="checkbox"/> CORRECTED (if checked)		<div style="border: 1px solid black; padding: 5px; display: inline-block;"> 2018 Form 1099-R </div>		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.	
PAYER'S name, address, city, state, ZIP code SECOND FEDERAL CREDIT UNION 242 MOTT ST WILMINGTON DE 19802		1 Gross distribution <div style="text-align: right; font-weight: bold;">\$3,700.00</div>		<div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;"> 2a Taxable amount <div style="text-align: right; font-weight: bold;">\$3,700.00</div> </div> <div style="display: flex; justify-content: space-between;"> <div>2b Taxable amount not determined. <input checked="" type="checkbox"/></div> <div>Total Distribution <input type="checkbox"/></div> </div>	
PAYER'S Federal identification number <div style="text-align: center; font-weight: bold;">11-3123456</div>		RECIPIENT'S identification number <div style="text-align: center; font-weight: bold;">125-00-XXXX</div>			
RECIPIENT'S name, address, city, state, ZIP code ALBERT J MEADOWS 24 NORTH STREET YOUR CITY, STATE, ZIP		3 Capital gain (included in box 2a). 			
		4 Federal income tax withheld <div style="text-align: right; font-weight: bold;">\$200.00</div>		<div style="border: 1px solid black; padding: 5px;"> Copy B Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return. This information is being furnished to the Internal Revenue Service </div>	
		5 Employee contributions /Designated Roth contributions or insurance premiums 			
		6 Net unrealized appreciation in employer's securities 			
		7.Distribution Code(s) <div style="text-align: center; font-weight: bold;">7</div>		8 Other <div style="text-align: center;">%</div>	
		IRA/ SEP/ SIMPLE <div style="text-align: center; font-weight: bold;">X</div>			
		9a Your percentage of total distribution <div style="text-align: center;">%</div>		9b Total Employee Contributions 	
10. Amount allocable to IRR within 5 years		11. 1st year of desig. Roth contrib.		12. State tax withheld	
Account number (see instructions)		15. Local tax withheld		13. State/Payer's state no.	
				14. State Distribution	
				16. Name of Locality	
				17. Local Distribution	
Form 1099-R					

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This is the first time Albert has taken a withdrawal from his IRA. He said he made non-deductible contributions to his Second Federal IRA for several years. He kept track of these contributions and has records showing that his basis is \$9,500. He has two IRAs. Albert brought both Forms 5498 that shows the value of his Second Federal IRA was \$43,540.13 and his First National IRA was \$13,698.54 on 12/31/2018. He made no contributions to his IRAs in 2018.

Learning Review

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| 1. The taxpayer takes a distribution from his IRA and tells you he had made non-deductible contributions in prior years. How would you enter the non-taxable portion of the current distribution into TaxSlayer? | |
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Answer to Learning Review

You will need either the Form 8606 from the prior year's tax return or taxpayer records. Use the basis information to complete the Form 8606 input screen and calculate the taxable portion of the distribution. The taxable amount is then entered in box 2a of the Form 1099-R input screen. Note: Form 8606, Part I is in scope for Tax-Aide.