2004

Department of the Treasury
Internal Revenue Service

Instructions for Form 8606

Nondeductible IRAs

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

General Instructions

Purpose of Form

Use Form 8606 to report:

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

Additional information. See Pub. 590, Individual Retirement Arrangements (IRAs), for more details.

TIP *If you received distributions from a traditional, SEP, or SIMPLE IRA in 2004 and you have never made nondeductible contributions to traditional IRAs, do not report the distributions on Form 8606. Instead, see the instructions for Form 1040, lines 15a and 15b; Form 1040A, lines 11a and 11b; or Form 1040NR, lines 16a and 16b. Also, to find out if any of your contributions to traditional IRAs are deductible, see the instructions for Form 1040, line 25; Form 1040A, line 17; or Form 1040NR, line 25.*

Who Must File

File Form 8606 if any of the following apply.

- You made nondeductible contributions to a traditional IRA for 2004.
- You received distributions from a traditional, SEP, or SIMPLE IRA in 2004 (other than a rollover, conversion, recharacterization, or return of certain contributions) and your basis in traditional IRAs is more than zero.
- You converted an amount from a traditional, SEP, or SIMPLE IRA to a Roth IRA in 2004 (unless you recharacterized the entire conversion—see page 3).
- You received distributions from a Roth IRA in 2004 (other than a rollover, recharacterization, or return of certain contributions—see page 7).

Note. If you recharacterized a 2004 Roth IRA contribution as a traditional IRA contribution, or vice versa, treat the contribution as having been made to the second IRA, not the first IRA. See page 3.

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

When and Where To File

File Form 8606 with your 2004 Form 1040, 1040A, or 1040NR. If you are not required to file an income tax return but are required to file Form 8606, sign Form 8606 and send it to the Internal Revenue Service at the same time and place you would otherwise file Form 1040, 1040A, or 1040NR.

Definitions

Deemed IRAs

A qualified employer plan (retirement plan) can maintain a separate account or annuity under the plan (a deemed IRA) to receive voluntary employee contributions. If in 2004 you had a deemed IRA, use the rules for either a traditional IRA or a Roth IRA depending on which type it was. See Pub. 590 for more details.

Traditional IRAs

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

Contributions. An overall contribution limit applies to traditional IRAs and Roth IRAs. See page 2. Contributions to a traditional IRA may be fully deductible, partially deductible, or completely nondeductible.

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

SEP IRAs

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

SIMPLE IRAs

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

Roth IRAs

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

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

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

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

Exception. Any distribution made during the 5-year period beginning with the first year for which you made a Roth IRA contribution or conversion

is not a qualified distribution, and may be taxable.

Contributions. You can contribute to a Roth IRA for 2004 only if your 2004 modified adjusted gross income (AGI) for Roth IRA purposes is less than:

- $10,000 if married filing separately and you lived with your spouse at any time in 2004,
- $160,000 if married filing jointly or qualifying widow(er), or
- $110,000 if single, head of household, or if married filing separately and you did not live with your spouse at any time in 2004.

Use the Maximum Roth IRA Contribution Worksheet below to figure the maximum amount you can contribute to a Roth IRA for 2004. If you are married filing jointly, complete the worksheet separately for you and your spouse.

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

Modified AGI for Roth IRA purposes. First, figure your AGI (Form 1040, line 37; Form 1040A, line 22; or Form 1040NR, line 34). Then, refigure it by:

1. Subtracting any amount due to Roth IRA conversions included on Form 1040, line 15b; Form 1040A, line 11b; or Form 1040NR, line 16b; and

2. Adding the total of the following.

a. IRA deduction from Form 1040, line 25; Form 1040A, line 17; or Form 1040NR, line 25.

b. Student loan interest deduction from Form 1040, line 26; Form 1040A, line 18; or Form 1040NR, line 26.

c. Tuition and fees deduction from Form 1040, line 27, or Form 1040A, line 19.

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

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

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

g. Foreign housing exclusion or deduction from Form 2555.

Maximum Roth IRA Contribution Worksheet (keep for your records)

Caution: *If married filing jointly and the combined taxable compensation (defined on this page) for you and your spouse is less than $6,000 ($6,500 if one spouse is 50 or older at the end of 2004; $7,000 if both spouses are 50 or older at the end of 2004),* ***do not*** *use this worksheet. Instead, see Pub. 590 for special rules.*

1	If married filing jointly, enter $3,000 ($3,500 if age 50 or older at the end of 2004). All others, enter the **smaller** of $3,000 ($3,500 if age 50 or older at the end of 2004) or your taxable compensation (defined on this page)	**1** _____
2	Enter your total contributions to traditional IRAs for 2004 . .	**2** _____
3	Subtract line 2 from line 1	**3** _____
4	Enter: $160,000 if married filing jointly or qualifying widow(er); $10,000 if married filing separately and you lived with your spouse at any time in 2004. All others, enter $110,000	**4** _____
5	Enter your modified AGI for Roth IRA purposes (see above)	**5** _____
6	Subtract line 5 from line 4. If zero or less, **stop here;** you may not contribute to a Roth IRA for 2004. See **Recharacterizations** on page 3 if you made Roth IRA contributions for 2004	**6** _____
7	If line 4 above is $110,000, enter $15,000; otherwise, enter $10,000. If line 6 is more than or equal to line 7, skip lines 8 and 9 and enter the amount from line 3 on line 10	**7** _____
8	Divide line 6 by line 7 and enter the result as a decimal (rounded to at least 3 places). If the result is 1.000 or more, enter 1.000	**8** _____
9	Multiply line 1 by line 8. If the result is not a multiple of $10, increase it to the next multiple of $10 (for example, increase $490.30 to $500). Enter the result, but not less than $200 . .	**9** _____
10	**Maximum 2004 Roth IRA Contribution.** Enter the **smaller** of line 3 or line 9. See **Recharacterizations** on page 3 if you contributed more than this amount to Roth IRAs for 2004	**10** _____

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

Distributions. See the instructions for Part III beginning on page 7.

Overall Contribution Limit for Traditional and Roth IRAs

If you are not married filing jointly, your limit on contributions to traditional and Roth IRAs is the smaller of $3,000 ($3,500 if age 50 or older at the end of 2004) or your taxable compensation (defined below). If you are married filing jointly, your contribution limit is generally $3,000 ($3,500 if age 50 or older at the end of 2004) and your spouse's contribution limit is $3,000 ($3,500 if age 50 or older at the end of 2004) as well. But if the combined taxable compensation of both you and your spouse is less than $6,000 ($6,500 if one spouse is 50 or older at the end of 2004; $7,000 if both spouses are 50 or older at the end of 2004), see Pub. 590 for special rules. This limit does not apply to employer contributions to a SEP or SIMPLE IRA.

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

Taxable compensation includes the following.

- Wages, salaries, tips, etc. If you received a distribution from a nonqualified deferred compensation plan or nongovernmental section 457 plan that is included in box 1 of your Form W-2, do not include that distribution in taxable compensation. The distribution should be shown in box 11 of your Form W-2. If it is not, contact your employer for the amount of the distribution.
- Self-employment income. If you are self-employed (a sole proprietor or a partner), taxable compensation is your net earnings from your trade or business (provided your personal services are a material income-producing factor) reduced by your deduction for contributions made on your behalf to retirement plans

and the deduction allowed for one-half of your self-employment tax.

- Alimony and separate maintenance.

See Pub. 590 for details.

Note. Rollovers and Roth IRA conversions do not affect your contribution limit.

Recharacterizations

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

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

1. You converted an amount from a traditional, SEP, or SIMPLE IRA to a Roth IRA in 2004 and later recharacterized all or part of the amount back to a traditional, SEP, or SIMPLE IRA. If you only recharacterized part of the amount converted, report the amount not recharacterized on Form 8606. If you recharacterized the entire amount, do not report the recharacterization on Form 8606. In either case, attach a statement to your return explaining the recharacterization and include the amount converted from the traditional, SEP, or SIMPLE IRA in the total on Form 1040, line 15a; Form 1040A, line 11a; or Form 1040NR, line 16a. If the recharacterization occurred in 2004, also include the amount transferred back from the Roth IRA on that line. If the recharacterization occurred in 2005, report the amount transferred only in the attached statement, and not on your 2004 or 2005 tax return (a 2005 Form 1099-R should be sent to you by January 31, 2006, stating that you made a recharacterization of an amount converted in the prior year).

Example. You are married filing jointly and converted $20,000 from your traditional IRA to a new Roth IRA on May 21, 2004. On April 8, 2005, you determine that your 2004 modified AGI for Roth IRA purposes will exceed $100,000, and you are not allowed to make a Roth IRA conversion. The value of the Roth IRA on that date is $19,000. You recharacterize the conversion by transferring that entire amount to a traditional IRA in a trustee-to-trustee transfer. You report $20,000 on Form 1040, line 15a. You do not include the $19,000 on line 15a because it did not occur in 2004 (you also do not report that amount on your 2005 return because it does not apply to the 2005 tax year). You attach a statement to Form 1040 explaining that you made a conversion of $20,000 from a traditional IRA on May 21, 2004, and that you recharacterized the entire amount, which was then valued at $19,000, back to a traditional IRA on April 8, 2005, because your 2004 modified AGI for Roth IRA purposes exceeded $100,000.

2. You made a contribution to a traditional IRA and later recharacterized part or all of it to a Roth IRA. If you recharacterized only part of the contribution, report the nondeductible traditional IRA portion of the remaining contribution, if any, on Form 8606, Part I. If you recharacterized the entire contribution, do not report the contribution on Form 8606. In either case, attach a statement to your return explaining the recharacterization. If the recharacterization occurred in 2004, include the amount transferred from the traditional IRA on Form 1040, line 15a; Form 1040A, line 11a; or Form 1040NR, line 16a. If the recharacterization occurred in 2005, report the amount transferred only in the attached statement.

Example. You are single, covered by a retirement plan, and you contributed $3,000 to a new traditional IRA on May 28, 2004. On February 24, 2005, you determine that your 2004 modified AGI will limit your traditional IRA deduction to $1,000. The value of your traditional IRA on that date is $3,300. You decide to recharacterize $2,000 of the traditional IRA contribution as a Roth IRA contribution, and have $2,200 ($2,000 contribution plus $200 related earnings) transferred from your traditional IRA to a Roth IRA in a trustee-to-trustee transfer. You deduct the $1,000 traditional IRA contribution on Form 1040. You are not required to file Form 8606, but you must attach a statement to your return explaining the recharacterization. The statement indicates that you contributed $3,000 to a traditional IRA on May 28, 2004; recharacterized $2,000 of that contribution on February 24, 2005, by transferring $2,000 plus $200 of related earnings from your traditional IRA to a Roth IRA in a trustee-to-trustee transfer; and that all $1,000 of the remaining traditional IRA contribution is deducted on Form 1040. You do not report the $2,200 distribution from your traditional IRA on your 2004 Form 1040 because the distribution occurred in 2005. You do not report the distribution on your 2005 Form 1040 because the recharacterization related to 2004 and was explained in an attachment to your 2004 return.

3. You made a contribution to a Roth IRA and later recharacterized part or all of it to a traditional IRA. Report the nondeductible traditional IRA portion, if any, on Form 8606, Part I. If you did not recharacterize the entire contribution, do not report the remaining Roth IRA portion of the contribution on Form 8606. Attach a statement to your return explaining the recharacterization. If the recharacterization occurred in 2004, include the amount transferred from

the Roth IRA on Form 1040, line 15a; Form 1040A, line 11a; or Form 1040NR, line 16a. If the recharacterization occurred in 2005, report the amount transferred only in the attached statement, and not on your 2004 or 2005 tax return.

Example. You are single and contributed $3,000 to a new Roth IRA on June 14, 2004. On December 27, 2004, you determine that your 2004 modified AGI will allow a full traditional IRA deduction. You decide to recharacterize the Roth IRA contribution as a traditional IRA contribution and have $3,200, the balance in the Roth IRA account ($3,000 contribution plus $200 related earnings), transferred from your Roth IRA to a traditional IRA in a trustee-to-trustee transfer. You deduct the $3,000 traditional IRA contribution on Form 1040. You are not required to file Form 8606, but you must attach a statement to your return explaining the recharacterization. The statement indicates that you contributed $3,000 to a new Roth IRA on June 14, 2004; recharacterized that contribution on December 27, 2004, by transferring $3,200, the balance in the Roth IRA, to a traditional IRA in a trustee-to-trustee transfer; and that $3,000 of the traditional IRA contribution is deducted on Form 1040. You include the $3,200 distribution on your 2004 Form 1040, line 15a.

Return of IRA Contributions

If, in 2004, you made traditional IRA contributions or Roth IRA contributions for 2003 or 2004 and you had those contributions returned to you with any related earnings (or less any loss) by the due date (including extensions) of your 2004 tax return, the returned contributions are treated as if they were never contributed. Do not report the contribution or distribution on Form 8606 or take a deduction for the contribution. However, you must report the distribution and any related earnings on your 2004 Form 1040, lines 15a and 15b; Form 1040A, lines 11a and 11b; or Form 1040NR, lines 16a and 16b. Attach a statement explaining the distribution. You cannot deduct any loss that occurred (see Pub. 590 for an exception if you withdrew the entire amount in all your traditional or Roth IRAs). Also, if you were under age 59½ at the time of a distribution with related earnings, you generally are subject to the additional 10% tax on early distributions (see Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts).

If you timely filed your 2004 tax return without withdrawing a contribution that you made in 2004, you can still have the contribution returned to you within 6 months of the due date of your 2004 tax return, excluding extensions. If you do, file an amended return with “Filed pursuant to section 301.9100-2” written at the top. Report any related earnings on the amended return and include an explanation of the withdrawal. Make any other necessary changes on the amended return (for example, if you reported the contributions as excess contributions on your original return, include an amended Form 5329 reflecting that the withdrawn contributions are no longer treated as having been contributed).

In most cases, the related earnings that you must withdraw are figured by your IRA trustee or custodian. If you need to figure the related earnings on IRA contributions that were made in 2003 or 2004 and were returned to you, use Notice 2000-39, section 1.408A-5, A-2(c), or Worksheet 1-4 in Pub. 590. You can find Notice 2000-39 on page 132 of Internal Revenue Bulletin 2000-30 at *www.irs.gov/pub/irs-irbs/irb00-30.pdf*. Notice 2000-39 permits the earnings or loss to be determined by allocating to the contribution a pro-rata share of the earnings that accrued in the IRA during the period the IRA held the contribution. If there are no intervening contributions or distributions, the earnings (or loss) is equal to the contribution multiplied by the net change in the value of the IRA divided by the value of the IRA immediately after the contribution was made. The net change in the value of the IRA is equal to the value of the IRA immediately prior to the distribution minus the value of the IRA immediately after the contribution was made. See the example below. If you made a contribution or distribution while the IRA held the returned contribution, see Notice 2000-39.

If you made a contribution in 2003 and you had it returned to you in 2004 as described above, do not report the distribution on your 2004 tax return. Instead, report it on your 2003 original or amended return in the manner described above. Likewise, report on your 2005 tax return any distribution made in 2005 that is a return of contributions that were made in 2005 for 2004 (but be sure that your original or amended 2004 tax return reflects that the contribution is treated as not having been contributed).

Example. On May 31, 2004, you contributed $3,000 to your traditional IRA. The value of the IRA was $18,000 prior to the contribution. On December 29, 2004, when you are age 57 and the value of the IRA is $22,600, you realize you cannot make the entire contribution because your taxable compensation for the year will be only $2,000. You decide to have $1,000 of the contribution returned to you and withdraw $1,076 from your IRA ($1,000 contribution plus $76 earnings). You did not make any other withdrawals or contributions. The earnings were figured according to Notice 2000-39 by first dividing the $1,600 increase in the value of the IRA by $21,000 (the value of the IRA immediately after the contribution) and multiplying the result by $1,000 (the amount being returned). You are not required to file Form 8606. You deduct the $2000 remaining contribution on Form 1040. You include $1,076 on Form 1040, line 15a, and $76 on line 15b. You attach a statement to your tax return explaining the distribution. Because you properly removed the excess contribution with the related earnings by the due date of your tax return, you are not subject to the additional 6% tax on excess contributions. However, because you were under age 59½ at the time of the distribution, the $76 of earnings is subject to the additional 10% tax on early distributions. You include $7.60 on Form 1040, line 59.

Return of Excess Traditional IRA Contributions

The return (distribution) in 2004 of excess traditional IRA contributions for years prior to 2004 is not taxable if all three of the following apply.

1. The distribution was made after the due date, including extensions, of your tax return for the year for which the contribution was made (if the distribution was made earlier, see

Return of IRA Contributions on page 4).

2. The total contributions (excluding rollovers and conversions) to your traditional and SEP IRAs for the year for which the excess contribution was made did not exceed:

a. $3,000 ($3,500 if age 50 or older at the end of 2003) for 2003,

b. $3,000 ($3,500 if age 50 or older at the end of 2002) for 2002,

c. $2,000 for years after 1996 and before 2002, or

d. $2,250 for years before 1997.

If your total IRA contributions for the year included employer contributions to a SEP IRA, increase the $3,000 ($3,500, if applicable), $2,000, or $2,250 by the smaller of the employer contributions or $40,000 ($35,000 for 2001, or $30,000 for years before 2001).

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

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

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

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

Example. You are single, you retired in 2001, and you had no taxable compensation after 2001. However, you made traditional IRA contributions (that you did not deduct) of $2,000 in 2002 and $3,000 in 2003. In November 2004, a tax practitioner informed you that you had made excess contributions for those years because you had no taxable compensation. You withdrew the $5,000 and filed amended returns for 2002 and 2003 reflecting the additional 6% tax on excess contributions on Form 5329. You include the $5,000 distribution on your 2004 Form 1040, line 15a, enter -0- on line 15b, and attach a statement to your return explaining the distribution, including the fact that you filed amended returns for 2002 and 2003 and paid the additional 6% tax on the excess contributions for those years. The statement indicates that the distribution is not taxable because (a) it was made after the due dates of your 2002 and 2003 tax returns, including extensions, (b) your total IRA contributions did not exceed $3,000 ($3,500 if age 50 or older at the end of 2002) for 2002 or $3,000 ($3,500 if age 50 or older at the end of 2003) for 2003, and (c) you did not take a deduction for the contributions, and no deduction was allowable because you did not have any taxable compensation for those years. The statement also indicates that the distribution reduced your excess contributions to -0-, as reflected on your 2004 Form 5329 and it indicates your adjusted basis in nondeductible contributions.

Amending Form 8606

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

Penalty for Not Filing

If you are required to file Form 8606 to report a nondeductible contribution to a traditional IRA for 2004, but do not do so, you must pay a $50 penalty, unless you can show reasonable cause.

Overstatement Penalty

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

What Records Must I Keep?

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

- Page 1 of Forms 1040 (or Forms 1040A, 1040NR, or 1040-T) filed for each year you made a nondeductible contribution to a traditional IRA.
- Forms 8606 and any supporting statements, attachments, and worksheets for all applicable years.
- Forms 5498 or similar statements you received each year showing contributions you made to a traditional IRA or Roth IRA.
- Forms 5498 or similar statements you received showing the value of your traditional IRAs for each year you received a distribution.
- Forms 1099-R or W-2P you received for each year you received a distribution.

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

Specific Instructions

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

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

Line 1

If you used the IRA Deduction Worksheet in the Form 1040 or 1040A instructions, subtract line 10 of the worksheet (or the amount you chose to deduct on Form 1040, line 25, or Form 1040A, line 17, if less) from the smaller of line 8 or line 9 of the worksheet. Enter the result on line 1 of Form 8606. You cannot deduct the amount included on line 1.

If you used the worksheet Figuring Your Reduced IRA Deduction for 2004 in Pub. 590, enter on line 1 of Form 8606 any nondeductible contributions from the appropriate lines of that worksheet.

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

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

Line 2

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

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

- You had a return of excess traditional IRA contributions (see page 4).
- Incident to divorce, you transferred or received part or all of a traditional IRA (see *Distributions that are incident to divorce* on this page).
- You rolled over any nontaxable portion of your qualified employer plan to a traditional or SEP IRA. Include the nontaxable portion on line 2.

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

Line 4

If you made contributions to traditional IRAs for 2004 in 2004 and 2005 and you have both deductible and nondeductible contributions, you can choose to treat the contributions made in 2004 first as nondeductible contributions and then as deductible contributions, or vice versa. But the amount on line 4 cannot be less than the excess, if any, of the amount on line 1 over the contributions you actually made in 2004.

Example. You made contributions for 2004 of $1,500 in May 2004 and $1,500 in January 2005, of which $2,000 are deductible and $1,000 are nondeductible. You choose $1,000 of your contribution in 2004 to be nondeductible. You enter the $1,000 on line 1, but not line 4, and it becomes part of your basis for 2004.

Although the contributions to traditional IRAs for 2004 that you made from January 1, 2005, through April 15, 2005, can be treated as nondeductible, they are not included in figuring the nontaxable part of any distributions you received in 2004.

Line 6

Enter the total value of all your traditional, SEP, and SIMPLE IRAs as of December 31, 2004, plus any outstanding rollovers. A statement should be sent to you by January 31, 2005, showing the value of each IRA on December 31, 2004. However, if you recharacterized any amounts, enter on line 6 the total value taking into account all recharacterizations, including recharacterizations made after December 31, 2004.

For line 6, a rollover is a tax-free distribution from one traditional, SEP, or SIMPLE IRA that is contributed to another traditional, SEP, or SIMPLE IRA. The rollover must be completed within 60 days of receiving the distribution from the first IRA. An outstanding rollover is any amount distributed within 60 days before the end of 2004 (from November 2 through December 31) that was rolled over after December 31, 2004, but within the 60-day rollover period.

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

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

Line 7

CAUTION *If you received a distribution in 2004 from a traditional, SEP, or SIMPLE IRA and you also made contributions for 2004 to a traditional IRA that may not be fully deductible because of the income limits, you must make a special computation before completing the rest of this form. For details, including how to complete Form 8606, see* Are Distributions Taxable? *in Chapter 1 of Pub. 590.*

Do not include any of the following on line 7.

- Distributions that you converted to a Roth IRA.
- Recharacterizations.
- Distributions that you rolled over by December 31, 2004, and any outstanding rollovers included on line 6.
- Distributions you rolled over to a qualified employer plan.
- Distributions that are treated as a return of contributions under *Return of IRA Contributions* on page 4.
- Distributions that are treated as a return of excess contributions under *Return of Excess Traditional IRA Contributions* on page 4.
- Distributions of excess contributions due to incorrect rollover information. If an excess contribution in your traditional IRA is the result of a rollover from a qualified retirement plan and the excess occurred because the information the plan was required to give you was incorrect, the distribution of the excess contribution is not taxable. Attach a statement to your return explaining the distribution and include the amount of the distribution on Form 1040, line 15a; Form 1040A, line 11a; or Form 1040NR, line 16a. See Pub. 590 for more details.
- Distributions that are incident to divorce. The transfer of part or all of your traditional, SEP, or SIMPLE IRA to your spouse under a divorce or separation agreement is not taxable to you or your spouse. If this transfer results in a change in the basis of the traditional IRA of either spouse, both spouses must file Form 8606 and show the increase or decrease in the amount of basis on line 2. Attach a statement explaining this adjustment. Include in the statement the character of the amounts in the traditional IRA, such as the amount attributable to nondeductible contributions. Also, include the name and social security number of the other spouse.

Line 8

If, in 2004, you converted any amounts from traditional, SEP, or SIMPLE IRAs to a Roth IRA, enter on line 8 the net amount you converted. To figure that amount, subtract from the total amount converted in 2004 any portion that you recharacterized back to traditional, SEP, or SIMPLE IRAs in 2004 or 2005 (see *Recharacterizations* on page 3). Do not take into account related earnings that were transferred with the recharacterized amount or any loss that occurred while the amount was in the Roth IRA. See item 1 under *Reporting recharacterizations* on page 3 for details.

Basis in Regular Roth IRA Contributions—Line 22

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

Line 15

If you were under age 59½ at the time you received distributions from your traditional, SEP, or SIMPLE IRA, there generally is an additional 10% tax on the portion of the distribution that is included in income (25% for a distribution from a SIMPLE IRA during the first 2 years). See the Instructions for Form 1040, line 59.

Part II—2004 Conversions From Traditional, SEP, or SIMPLE IRAs to Roth IRAs

Complete Part II if you converted part or all of your traditional, SEP, or SIMPLE IRAs to a Roth IRA in 2004, excluding any portion you recharacterized. See item 1 under *Reporting recharacterizations* on page 3 for details.

Limit on number of conversions. If you converted an amount from a traditional, SEP, or SIMPLE IRA to a Roth IRA in 2004 and then recharacterized the amount back to a traditional, SEP, or SIMPLE IRA, you cannot reconvert that amount until the later of January 1, 2005, or 30 days after the recharacterization. See Pub. 590 for details.

CAUTION *You cannot convert any amount to Roth IRAs in 2004 if (a) your modified AGI for Roth IRA purposes (see page 2) is more than $100,000 or (b) your filing status is married filing separately and you lived with your spouse at any time in 2004. If you erroneously made a conversion, you must recharacterize the converted amount. See* Recharacterizations *on page 3.*

Line 16

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

Line 17

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

Part III—Distributions From Roth IRAs

Complete Part III to figure the taxable part, if any, of your 2004 Roth IRA distributions.

Line 19

Do not include on line 19 any of the following.

- Distributions that you rolled over, including distributions made in 2004 and rolled over after December 31, 2004 (outstanding rollovers).
- Recharacterizations.
- Distributions that are a return of contributions under *Return of IRA Contributions* on page 4.
- Distributions made on or after age 59½ if you made a contribution (including a conversion) for 1998.
- Distributions made upon death or due to disability if you made a contribution (including a conversion) for 1998.
- Distributions that are incident to divorce. The transfer of part or all of your Roth IRA to your spouse under a divorce or separation agreement is not taxable to you or your spouse.

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

Line 20

If you had a qualified first-time homebuyer distribution from your Roth IRA and you made a contribution (including a conversion) to a Roth IRA for 1998, enter the amount of your qualified first-time homebuyer expenses on line 20, but do not enter more than $10,000.

Line 22

Figure the amount to enter on line 22 as follows.

- If you did not take a Roth IRA distribution before 2004 (other than an amount rolled over or

Basis in Roth IRA Conversions—Line 24

IF the most recent year prior to 2004 in which you had a distribution* in excess of your basis in contributions was...	THEN enter on Form 8606, line 24, this amount...	PLUS the sum of the amounts on the following lines...
2003 (you had an amount on your 2003 Form 8606, line 21)	The excess, if any, of your 2003 Form 8606, line 22, over line 21 of that Form 8606.	Line 16 of your 2004 Form 8606
2002 (you had an amount on your 2002 Form 8606, line 21)	The excess, if any, of your 2002 Form 8606, line 22, over line 21 of that Form 8606	Line 16 of your 2003 and 2004 Forms 8606
2001 (you had an amount on your 2001 Form 8606, line 21)	The excess, if any, of your 2001 Form 8606, line 22, over line 21 of that Form 8606	Line 16 of your 2002 through 2004 Forms 8606
2000 (you had an amount on your 2000 Form 8606, line 19)	The excess, if any, of your 2000 Form 8606, line 25, over line 19 of that Form 8606	Line 16 of your 2001 through 2004 Forms 8606
1999 (you had an amount on your 1999 Form 8606, line 19)	The excess, if any, of your 1999 Form 8606, line 25, over line 19 of that Form 8606	Line 14c of your 2000 Form 8606 and line 16 of your 2001 through 2004 Forms 8606
1998 (you had an amount on your 1998 Form 8606, line 20)	The excess, if any, of your 1998 Form 8606, line 14c, over line 20 of that Form 8606	Line 14c of your 1999 and 2000 Forms 8606 and line 16 of your 2001 through 2004 Forms 8606
Did not have such a distribution in excess of your basis in contributions	The amount from your 2004 Form 8606, line 16	Line 14c of your 1998, 1999, and 2000 Forms 8606 and line 16 of your 2001 through 2003 Forms 8606
*Excluding rollovers, recharacterizations, and contributions that you had returned to you.		

recharacterized or a returned contribution), enter on line 22 the total of all your regular contributions to Roth IRAs for 1998 through 2004 (excluding rollovers and any contributions that you had returned to you), adjusted for any recharacterizations.

- If you did take such a distribution before 2004, use the chart on page 7 to figure the amount to enter.
- Increase or decrease the amount on line 22 by any basis transferred or received incident to divorce. Also attach a statement similar to the one explained under *Distributions that are incident to divorce* on page 6.

Line 23

Generally, there is an additional 10% tax on 2004 distributions from a Roth IRA that are shown on line 23. The additional tax is figured on Form 5329, Part I. See the instructions for Form 5329, line 1, for details and exceptions. However, do not complete Form 5329 if you have an amount on line 20 that is equal to or more than the amount on line 23; you do not owe the additional 10% tax.

Line 24

Figure the amount to enter on line 24 as follows.

- If you have never made a Roth IRA conversion, enter -0- on line 24.
- If you took a Roth IRA distribution (other than an amount rolled over or recharacterized or a returned contribution) before 2004 in excess of your basis in regular Roth IRA contributions, use the chart on this page to figure the amount to enter on line 24.
- If you did not take such a distribution before 2004, enter on line 24 the total of all your conversions to Roth IRAs (other than amounts recharacterized). These amounts are shown on line 14c of your 1998, 1999, and 2000 Forms 8606 and line 16 of your 2001 through 2004 Forms 8606.
- Increase or decrease the amount on line 24 by any basis transferred or received incident to divorce. Also attach a statement similar to the one explained under *Distributions that are incident to divorce* on page 6.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the paperwork reduction act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	1 hr., 4 min.
Learning about the law or the form	1 hr., 12 min.
Preparing the form	53 min.
Copying, assembling, and sending the form to the IRS	47 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.