



COUNCIL FOR AMERICAN PRIVATE EDUCATION

Voice of the Nation's Religious and Independent Schools of Choice



IRS Guidance on Coverdell Education Savings Accounts

The school choice movement made major progress in 2001 when Congress approved and President Bush signed a breakthrough measure of tax relief to help with the costs of a child's education in a private, including religious, elementary or secondary school. Although the relief is relatively modest—essentially amounting to tax-free interest on savings earmarked for education—its historical significance is unmistakable. Another brick has been removed from the wall that separates parents from the freedom to choose their children's schools.

Named after the late Paul Coverdell, the Georgia senator who fought valiantly and tirelessly for the measure, education savings accounts (ESAs) bring some important improvements to the education IRAs they replace. Coverdell ESAs have an annual contribution limit of \$2,000 (compared to their predecessor's \$500) and the funds can be used not only for college costs, but also for expenses in grades K-12. Families with children in public and private schools can use the accounts to pay for things like books, supplies, after-school programs, tuition, tutoring, and even home computers. Although contributions to an ESA are not tax deductible (they weren't for an education IRA either), the interest that accumulates is tax free, and withdrawals are not subject to taxation if used for qualified expenses. A noteworthy component of the program allows third parties, including relatives, friends, corporations, unions, and organizations, to contribute to an individual's ESA.

Like all tax-related programs, Coverdell ESAs come with rules from the Internal Revenue Service. The rules are scattered throughout three publications:

- [Publication 970: Tax Benefits for Higher Education](#)
- [Publication 553: Highlights of 2001 Tax Changes](#)
- [Instructions for Form 8606: Nondeductible IRAs and Coverdell ESAs](#)

CAPE is pleased to provide this consolidation of the Coverdell-related guidance from the three publications, along with [Form 8606](#), which taxpayers would use to report distributions taken from an ESA in 2001. Except for Form 8606 and its instructions, the documents in this CAPE consolidation are excerpts—albeit relevant excerpts—from lengthier IRS documents. The excerpts, naturally, are those that relate to Coverdell ESAs. But if you enjoy reading IRS documents, or want to get the full context of these excerpts, you can download the documents in their entirety from CAPE's Web site at <http://www.capenet.org/esa.html>. (1/02)

ESAs in Brief

✓ A Coverdell ESA is a trust or custodial account established to pay the qualified education expenses of a designated beneficiary. Up to \$2,000 annually can be contributed to the account.

✓ The buildup of interest within an account is tax free, and neither the principal nor interest is taxable upon withdrawal if used for a qualified education expense.

✓ Qualified education expenses include tuition, fees, books, supplies, and equipment at a public, private, or religious elementary or secondary school or college.

✓ Entities such as corporations, charitable organizations, and foundations can contribute to a student's account.

✓ Individual taxpayers with modified adjusted gross incomes under \$95,000 and married taxpayers with incomes under \$190,000 can make the maximum allowable annual contribution to an ESA. The allowable contribution is gradually reduced at higher levels of income.

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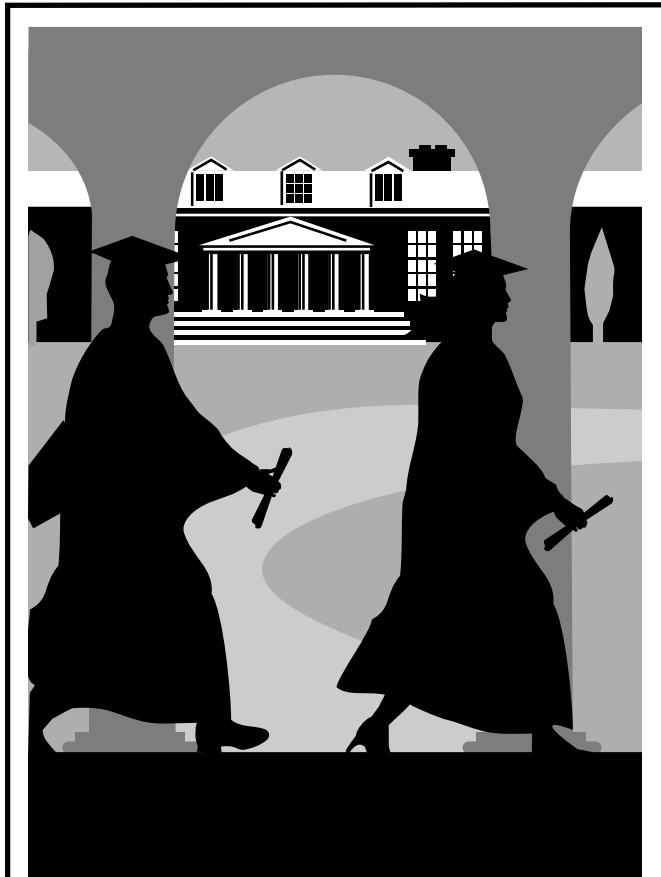
Department of the Treasury
Internal Revenue Service

Publication 970

Cat. No. 25221V

Tax Benefits for Higher Education

For use in preparing
2001 Returns



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4.

Coverdell Education Savings Accounts (ESAs) — Formerly Education IRAs

Important Change for 2001

Name change. Education individual retirement accounts (IRAs) have been renamed Coverdell education savings accounts (Coverdell ESAs).

Important Changes for 2002

Maximum contribution. The most you can contribute each year to a Coverdell ESA is increased from \$500 to \$2,000.

Income limitations. If you are married and filing a joint return, your contribution limit is not reduced if your modified adjusted gross income (MAGI) is \$190,000 or less. Your contribution limit is gradually reduced (phased out) if your MAGI is more than \$190,000 but less than \$220,000. If your MAGI is \$220,000 or more, you cannot contribute to a Coverdell ESA. For more information, see *Contributions* in this chapter.

Contribution due dates. The final date on which you can make contributions to a Coverdell ESA for any year has been extended to the due date of your return for that year (not including extensions). If you are a calendar year taxpayer, you generally will have until April 15, 2003, to make your contribution for the 2002 tax year.

Qualified expenses. Qualified education expenses have been expanded to include certain elementary and secondary education expenses. For more information, see [Publication 553](#).

Special needs beneficiaries. You can continue to make contributions to a Coverdell ESA for a special needs beneficiary after his or her 18th birthday. For more information about contributions, see *Contributions* in this chapter.

You can leave assets in a Coverdell ESA set up for a special needs beneficiary after the beneficiary reaches age 30.

Coordination with Hope and lifetime learning credits. You can claim the Hope or lifetime learning credit in the same year you take a tax-free distribution from a Coverdell ESA, provided that the distribution from the Coverdell ESA is not used for the same expenses for which the credit is claimed.

Coordination with qualified tuition programs (QTPs). You can make contributions to Coverdell ESAs and qualified tuition programs in the same year for the same beneficiary.

Introduction

You may be able to establish a Coverdell ESA to finance the qualified education expenses of a designated beneficiary. Until July 26, 2001, this type of account was called an education individual retirement arrangement (or Education IRA).

Contributions to a Coverdell ESA are not deductible, but amounts deposited in the account grow tax free until withdrawn.

- During **2001**, you could contribute up to \$500 cash to a Coverdell ESA for a beneficiary under age 18.
- For **2002**, you can contribute up to \$2,000 cash and, in some cases, the beneficiary can be 18 or older.

There is no limit on the number of separate Coverdell ESAs that can be established for a designated beneficiary. However, total contributions for the beneficiary cannot be more than \$500 for 2001 (\$2,000 for 2002) no matter how many accounts have been established. See *Contributions*, later.

If, for a year, withdrawals from an account are not more than a designated beneficiary's qualified education expenses at an eligible educational institution, the beneficiary will not owe tax on the withdrawals. See *Withdrawals*, later.

What Is a Coverdell ESA?

A Coverdell ESA is a trust or custodial account created or organized in the United States only for the purpose of paying the **qualified education expenses** of the **designated beneficiary** of the account.

Generally, when the account is established, the designated beneficiary must be under age 18.

To be treated as a Coverdell ESA, the account must be designated as a Coverdell ESA when it is created.

Beginning in 2002, the designated beneficiary can be 18 or older if he or she is a special needs beneficiary.

The document creating and governing the account must be in writing and must satisfy the following requirements.

- 1) The trustee or custodian must be a bank or an entity approved by the IRS.
- 2) The document must provide that the trustee or custodian can only accept a contribution that meets all of the following conditions.
 - a) Is in cash.
 - b) Is made before the beneficiary reaches age 18 (Beginning in 2002, this does not apply if the beneficiary is a special needs beneficiary).
 - c) Would not result in total contributions for 2001 (not including rollover contributions) being more than \$500 (\$2,000 for 2002).
- 3) Money in the account cannot be invested in life insurance contracts.

- 4) Money in the account cannot be combined with other property except in a common trust fund or common investment fund.
- 5) The balance in the account generally must be withdrawn within 30 days after the earlier of the following events.
 - a) The beneficiary reaches age 30. (Beginning in 2002, this rule no longer applies if the beneficiary is a special needs beneficiary).
 - b) The beneficiary's death.

Table 4–1. 2001 Coverdell ESAs At a Glance

Do not rely on this table alone. It provides only general highlights. See the text for definitions of terms in bold type and for more complete explanations.

Question	Answer
What is a Coverdell ESA ?	A savings account that is set up to pay the qualified education expenses of a designated beneficiary.
Where can it be established?	It can be opened in the United States at any bank or other IRS-approved entity that offers Coverdell ESAs.
Who can a Coverdell ESA be set up for?	Any beneficiary who is under age 18.
Who can contribute to a Coverdell ESA?	Generally, any individual (including the beneficiary) whose modified adjusted gross income for the year is less than \$110,000 (\$160,000 in the case of a joint return).

Qualified education expenses. These are expenses required for the enrollment or attendance of the designated beneficiary at an **eligible educational institution**. The following items are qualified education expenses.

- 1) Tuition and fees.
- 2) The cost of books, supplies, and equipment.
- 3) Amounts contributed to a qualified state tuition program. (See chapter 8, *Qualified State Tuition Programs*.)
- 4) In some situations, the cost of room and board.

The cost of room and board is a qualified education expense if the designated beneficiary is at least a **half-time student** at an eligible educational institution.

The expense for room and board is limited to one of the following two amounts.

- 1) The school's posted room and board charge for students living on campus.
- 2) \$2,500 each year for students living off campus and not at home.

Beginning in 2002, you can also use withdrawals from a Coverdell ESA account for certain elementary and secondary education expenses. For an explanation of elementary and secondary education expenses for which a withdrawal from a Coverdell ESA can be used, see [Publication 553](#).

Designated beneficiary. The individual named in the document creating the trust or custodial account to receive the benefit of the funds in the account is the designated beneficiary.

Eligible educational institution. An eligible educational institution is any college, university, vocational school, or other postsecondary educational institution eligible to participate in a student aid program administered by the Department of Education. It includes virtually all accredited, public, nonprofit, and proprietary (privately owned profit-making) postsecondary institutions. The educational institution should be able to tell you if it is an eligible educational institution.

Half-time student. A student is enrolled "at least half-time" if he or she is enrolled for at least half the full-time academic work load for the course of study the student is pursuing as determined under the standards of the school where the student is enrolled.

Contributions

Any individual (including the designated beneficiary for whose benefit the account is established) can contribute to a Coverdell ESA if the individual's **modified adjusted gross income** for the year is less than \$110,000. For individuals filing joint returns, that amount is \$160,000 for 2001 and \$220,000 for 2002.

Organizations, such as corporations, can also contribute to Coverdell ESAs. There is no requirement that an organization's income be below a certain level.

Contributions must be in cash.

For 2001, contributions:

- 1) Cannot be made after the beneficiary reaches age 18, and
- 2) Must be made by December 31, 2001.

For 2002, contributions:

- 1) Can be made after the beneficiary reaches age 18 if the beneficiary is a special needs beneficiary, and
- 2) Must be made by the due date of the return (not including extensions).

Contributions can be made to one or several Coverdell ESAs for the same designated beneficiary provided that the total contributions are not more than the contribution limits (defined later) for a year.



For 2001, no contributions can be made to a Coverdell ESA on behalf of a designated beneficiary if any amount is contributed during the year to a **qualified state tuition program** on behalf of the same beneficiary. Beginning in 2002, contributions can be made to a Coverdell ESA and a qualified tuition program in the same year for the same beneficiary without penalty.

Modified adjusted gross income. For most taxpayers, modified adjusted gross income (MAGI) is adjusted gross income (AGI) as figured on their federal income tax return.

MAGI when using Form 1040A. If you file Form 1040A, your MAGI is the AGI on line 19 of that form.

MAGI when using Form 1040. If you file Form 1040, your MAGI is the AGI on line 33 of that form, modified by adding back any:

- 1) Foreign earned income exclusion,
- 2) Foreign housing exclusion,
- 3) Exclusion of income for bona fide residents of American Samoa, and
- 4) Exclusion of income from Puerto Rico.

Worksheet 4–1, can be used to figure your MAGI.

Contribution Limits

There are two yearly limits:

- One on the total amount that can be contributed for each designated beneficiary in any year, and
- One on the amount that any individual can contribute for any one designated beneficiary for a year.

Limit for each designated beneficiary. The total of all contributions to all Coverdell ESAs set up for the benefit of any one designated beneficiary cannot be more than \$500 in 2001 (\$2,000 for 2002). This includes contributions (other than rollovers) to all the beneficiary’s Coverdell ESAs from all sources. Rollovers are discussed under *Rollovers and Other Transfers*, later.

Limit for each contributor. You can contribute up to \$500 for each designated beneficiary for 2001 (\$2,000 for 2002). This is the most you can contribute for the benefit of any one beneficiary for the year, regardless of the number of Coverdell ESAs set up for the beneficiary. However, this limit may be reduced as explained below.

In 2001, if your **modified adjusted gross income** (defined earlier) is between \$95,000 and \$110,000 (between \$150,000 and \$160,000 if filing a joint return), the \$500 limit for each designated beneficiary is gradually reduced (see *Figuring the limit*, next). If your modified adjusted gross income is \$110,000 or more (\$160,000 or more if filing a joint return), you cannot contribute to anyone’s Coverdell ESA.

Worksheet 4–1. MAGI for a Coverdell ESA

1. Enter your adjusted gross income (Form 1040, line 33).....	1. \$ _____
2. Enter your foreign earned income exclusion (Form 2555, line 40, or Form 2555–EZ, line 18). ..	2. \$ _____
3. Enter your housing exclusion (Form 2555, line 34).....	3. _____
4. Enter the amount of income from Puerto Rico that you are excluding. . .	4. _____
5. Enter the amount of income from American Samoa that you are excluding (Form 4563, line 15).....	5. _____
6. Add the amounts on lines 2, 3, 4, and 5.	6. _____
7. Add the amounts on lines 1 and 6. This is your modified adjusted gross income. Enter this amount on line 10 of your Form 8863.	
	7. \$ _____

For 2002, if you file a joint return, the limit for each designated beneficiary (\$2,000 for 2002) is gradually reduced if your **modified adjusted gross income** is more than \$190,000 but less than \$220,000. If your modified adjusted gross income is \$220,000 or more, you cannot contribute to anyone’s Coverdell ESA for 2002.

Figuring the limit. To figure the limit for 2001 on the amount you can contribute for each designated beneficiary, multiply \$500 by a fraction. The numerator (top number) is your modified adjusted gross income minus \$95,000 (\$150,000 if filing a joint return). The denominator (bottom number) is \$15,000 (\$10,000 if filing a joint return). Subtract the result from \$500. This is the amount you can contribute for each beneficiary.

To figure the limit for 2002, substitute \$2,000 for \$500 and, if filing a joint return, substitute \$190,000 for \$150,000 and \$30,000 for \$10,000.

Example. Paul, who is single, had modified adjusted gross income of \$96,500 for 2001. Paul can contribute up to \$450 in 2001 for each child, figured as follows.

- 1) $\$96,500 - \$95,000 = \$1,500$
- 2) $\$1,500 \div \$15,000 = 10\%$
- 3) $10\% \times \$500 = \50
- 4) $\$500 - \$50 = \$450$

Table 4–2. Coverdell ESA Contributions At a Glance

Do not rely on this table alone. It provides only general highlights. See the text for more complete explanations.

Question	Answer
Are contributions deductible?	No.
Why should someone contribute to a Coverdell ESA?	Earnings on the account grow tax free until withdrawn.
What is the contribution limit per designated beneficiary?	\$500 in 2001 for each designated beneficiary. \$2,000 for 2002.
What if more than one Coverdell ESA has been opened for the same designated beneficiary?	The annual contribution limit is \$500 in 2001 (\$2,000 for 2002) for each beneficiary, no matter how many Coverdell ESAs are set up for that beneficiary.
What if more than one individual makes contributions for the same designated beneficiary?	The contribution limit is \$500 in 2001 (\$2,000 for 2002) per beneficiary, no matter how many individuals contribute.
Can contributions other than cash be made to a Coverdell ESA?	No.
When must contributions stop?	In 2001, no contributions can be made to a beneficiary's Coverdell ESA after he or she reaches age 18. Beginning in 2002, contributions can be made to a Coverdell ESA for a special needs beneficiary after he or she reaches age 18.

Additional Tax on Excess Contributions

The beneficiary must pay a 6% excise tax each year on excess contributions that are in a Coverdell ESA at the end of the year. For 2001, excess contributions are the **total** of the following three amounts.

- 1) Contributions to any designated beneficiary's Coverdell ESA for the year that are more than \$500 (or, if

less, the total of each contributor's limit for the year, as discussed earlier).

- 2) All contributions to a designated beneficiary's Coverdell ESA for the year if any amount is also contributed during the year to a qualified state tuition program on behalf of the same beneficiary.
- 3) Excess contributions for the preceding year, reduced by the total of the following two amounts:
 - a) Withdrawals (other than those rolled over as discussed later) made during the year, and
 - b) The contribution limit for the current year minus the amount contributed for the current year.

Exceptions. For 2001, the excise tax does not apply if the excess contributions (and any earnings on them) are withdrawn before the due date of the beneficiary's tax return (including extensions).

If the beneficiary does not have to file a return, the tax does not apply if the excess contributions (and the earnings) are withdrawn by April 15, 2002.

The withdrawn earnings must be included in the beneficiary's income for the year in which the excess contribution is made.

The excise tax does not apply to any rollover contribution.

How to Figure. You figure this excise tax in Part V, Form 5329, *Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts*. You report it on line 55, Form 1040.

Rollovers and Other Transfers

Assets can be rolled over from one Coverdell ESA to another. The designated beneficiary can be changed and the beneficiary's interest can be transferred to a spouse or former spouse because of divorce.

Rollovers

Any amount withdrawn from a Coverdell ESA and rolled over to another Coverdell ESA for the benefit of the same beneficiary or a member of the beneficiary's family who is under age 30 is not taxable. An amount is rolled over if it is paid to another Coverdell ESA within 60 days after the date of the withdrawal.

Members of the beneficiary's family. The beneficiary's spouse and the following individuals (and their spouses) are members of the beneficiary's family.

- The beneficiary's child, grandchild, or stepchild.
- A brother, sister, half brother, half sister, stepbrother, or stepsister of the beneficiary.
- The father, mother, grandfather, grandmother, stepfather, or stepmother of the beneficiary.
- A brother or sister of the beneficiary's father or mother.
- A son or daughter of the beneficiary's brother or sister.

- The beneficiary's son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law.



Only one rollover per Coverdell ESA is allowed during the 12-month period ending on the date of the payment or withdrawal.

Changing the Designated Beneficiary

The designated beneficiary can be changed to a member of the beneficiary's family (defined earlier). There are no tax consequences if, at the time of the change, the new beneficiary is under age 30.

Transfer Because of Divorce

If a spouse or former spouse receives a Coverdell ESA under a divorce or separation instrument, it is not a taxable transfer. After the transfer, the spouse or former spouse treats the Coverdell ESA as his or her own.

Withdrawals

The designated beneficiary of a Coverdell ESA can take withdrawals at any time. Whether the withdrawals are tax free depends, in part, on whether the withdrawals are more than the amount of qualified education expenses (defined earlier) that the beneficiary has in the tax year.

You report withdrawals in Part IV of [Form 8606](#), *Non-deductible IRAs and Coverdell ESAs*.

Tax-Free Withdrawals

Generally, withdrawals are tax free if they are not more than the beneficiary's qualified education expenses for the tax year.

Taxable Withdrawals

Generally, a portion of the withdrawals is taxable to the beneficiary if the withdrawals are more than the beneficiary's qualified education expenses for the tax year.

Figuring the Taxable Portion of a Withdrawal

The taxable portion is the amount of the withdrawal that represents earnings that have accumulated tax free in the account. Figure the taxable portion as shown in the following steps.

- 1) Multiply the amount withdrawn by a fraction. The numerator is the total contributions in the account and the denominator is the total balance in the account before the withdrawal(s).
- 2) Subtract the amount figured in (1) from the total amount withdrawn during the year. This is the amount of earnings included in the withdrawal(s).

Table 4–3. Coverdell ESA Withdrawals At a Glance

Do not rely on this table alone. It provides only general highlights. See the text for definitions of terms in bold type and for more complete explanations.

Question	Answer
Is a withdrawal from a Coverdell ESA to pay for a designated beneficiary's qualified education expenses tax free?	Generally, yes, to the extent the amount of the withdrawal is not more than the designated beneficiary's qualified education expenses.
After the designated beneficiary completes his or her education at an eligible educational institution , may amounts remaining in the Coverdell ESA be withdrawn?	Yes. Amounts must be withdrawn when the designated beneficiary reaches age 30. (Beginning in 2002, this does not apply to a special needs beneficiary.) Also, certain transfers to members of the beneficiary's family are permitted.
Does the designated beneficiary need to be enrolled for a minimum number of courses to take a tax-free withdrawal?	No.

- 3) Multiply the amount of earnings figured in (2) by a fraction. The numerator is the qualified education expenses paid during the year and the denominator is the total amount withdrawn during the year.
- 4) Subtract the amount figured in (3) from the amount figured in (2). This is the amount the beneficiary must include in income.

The taxable amount must be reported on line 11b, Form 1040A, or on line 16b, Form 1040.

Example. You receive a \$600 withdrawal from a Coverdell ESA to which \$1,000 has been contributed. The balance in the account before the withdrawal was \$1,200. You had \$450 of qualified education expenses for the year. Using the steps above, you figure the taxable portion of your withdrawal as follows.

- 1) $\$600 \times (\$1,000 \div \$1,200) = \500
- 2) $\$600 - \$500 = \$100$
- 3) $\$100 \times (\$450 \div \$600) = \75
- 4) $\$100 - \$75 = \$25$

You must include \$25 in income as withdrawn earnings not used for qualified education expenses.

Additional Tax on Taxable Withdrawals

Generally, if you receive a taxable withdrawal, you also must pay a 10% additional tax on the amount included in income.

Exceptions. The 10% additional tax does not apply to withdrawals described in the following list.

- 1) Paid to a beneficiary (or to the estate of the designated beneficiary) on or after the death of the designated beneficiary.
- 2) Made because the designated beneficiary is disabled. A person is considered to be disabled if he or she shows proof that he or she cannot do any substantial gainful activity because of his or her physical or mental condition. A physician must determine that his or her condition can be expected to result in death or to be of long-continued and indefinite duration.
- 3) Made because the designated beneficiary received:
 - a) A qualified scholarship excludable from gross income,
 - b) An educational assistance allowance, or
 - c) Payment for the designated beneficiary's education expenses that is excludable from gross income under any law of the United States.
- 4) Included in income only because the beneficiary waived the tax-free treatment of the withdrawal (as explained later under *Waiver of Tax-Free Treatment*).
- 5) A return of an excess 2001 contribution (and any earnings on it) made before the due date of the beneficiary's tax return (including extensions). If the beneficiary does not have to file a return, the excess (and any earnings) must be withdrawn by April 15, 2002. The beneficiary must include in gross income for the year the contribution is made, any income earned on the excess contribution.

Exception (3) applies only to the extent the withdrawal is not more than the scholarship, allowance, or payment.

Waiver of Tax-Free Treatment

For 2001, the designated beneficiary can waive the tax-free treatment of the withdrawal and elect to pay any

tax that would otherwise be owed on the withdrawal. The beneficiary or the beneficiary's parents may then be eligible to claim a Hope credit or lifetime learning credit for qualified education expenses paid in that tax year. (See chapter 1, *Hope Credit*, and chapter 2, *Lifetime Learning Credit*, to determine if all of the requirements for those credits are met.)

When Assets Must Be Withdrawn

Any assets remaining in a Coverdell ESA must be withdrawn when either one of the following two events occurs.

- 1) The designated beneficiary reaches age 30. In this case, the designated beneficiary must withdraw the remaining assets within 30 days after reaching age 30 (Beginning in 2002, this rule no longer applies if the beneficiary is a special needs beneficiary).
- 2) The designated beneficiary dies before reaching age 30. In this case, the remaining assets must generally be withdrawn within 30 days after the date of death.

Exception for Transfer to Surviving Spouse or Family Member

If a Coverdell ESA is transferred to a surviving spouse or other family member as the result of the death of the designated beneficiary, the Coverdell ESA retains its status. (For this purpose, family member was defined earlier under *Rollovers*.) This means the spouse or other family member can treat the Coverdell ESA as his or her own and does not need to withdraw the assets until he or she reaches age 30. There are no tax consequences as a result of the transfer.

How To Figure the Taxable Earnings

The earnings that accumulated tax free in the account must be included in taxable income. You determine these earnings as shown in the following two steps.

- 1) Multiply the amount withdrawn by a fraction. The numerator is the total contributions in the account and the denominator is the total balance in the account before the withdrawal(s).
- 2) Subtract the amount figured in (1) from the total amount withdrawn during the year. The result is the amount of earnings included in the withdrawal. The beneficiary or other person receiving the distribution must include this amount in income.



Department of the Treasury
Internal Revenue Service

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Highlights of 2001 Tax Changes



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cape
excerpt
p. 7
of Pub. 553

Introduction

This publication highlights tax law changes that take effect in 2001, 2002, and later years. The chapters are divided into separate sections based on when the changes take effect.

During 2001, many changes to the tax law were considered by Congress. Several of our publications and instructions to tax forms contained **Cautions** about possible changes in the law. The changes to the law that Congress made are explained in this publication.

Many of the changes discussed in this publication resulted from the Economic Growth and Tax Relief Reconciliation Act of 2001. The Act included a **sunset provision** in order to comply with the Congressional Budget Act of 1974. This provision states that the changes from the Act will not apply in tax years beginning after 2010 unless extended by future legislation.

Some of the changes covered in this publication include the following.

- Tax rate reductions.
- Changes to various credits including the earned income credit, adoption credit, and child tax credit.
- Changes to the student loan interest deduction.
- Changes to estate tax rates over the next few years and the eventual repeal of estate taxes.
- Increase in the allowable amount of individual retirement arrangement (IRA) contributions.
- Higher contribution and benefit limits for retirement plans.
- Additional contributions to retirement plans allowed for those age 50 and over.

See the discussion of each topic for more information.

Adjusting your withholding or estimated tax payments for 2002. If your tax for 2002 will be more or less than your 2001 tax, you may need to adjust your withholding or estimated tax payments accordingly. If your tax will decrease, you can get the benefit of lower taxes throughout

for the benefit of the same beneficiary cannot apply to more than one transfer within any 12-month period.

Qualified expenses. Calculation of the amount that is considered reasonable for room and board expenses has been changed. You must contact the educational institution for their qualified room and board costs.

Special needs beneficiaries. The definition of “qualified higher education expenses” has been expanded to include expenses of a special needs beneficiary that are necessary for that person’s enrollment or attendance at an eligible institution.

Coordination with Coverdell ESAs. You can make contributions to QTPs and Coverdell ESAs in the same year for the same beneficiary. Previously, you could only make contributions to one program or the other.

Coverdell ESAs (Formerly Education IRAs)

Beginning in 2002, the following changes apply to Coverdell education savings accounts (Coverdell ESAs). For more complete information on Coverdell ESAs, see chapter 4 in [Publication 970, Tax Benefits for Higher Education](#).

Maximum contribution. The most you can contribute each year to a Coverdell ESA is increased from \$500 to \$2,000.

Income limits. If you file a joint return, the amount you can contribute to a Coverdell ESA will be phased out (gradually reduced) if your modified adjusted gross income (MAGI) is more than \$190,000 but less than \$220,000. You will not be able to contribute to a Coverdell ESA if your MAGI is \$220,000 or more. This is an increase in the phaseout range for married taxpayers filing joint returns (which was between \$150,000 and \$160,000 in 2001).

Contribution due dates. The final date on which you can make contributions to a Coverdell ESA for any year has been extended to the due date of your return for that year (not including extensions). If you are a calendar year taxpayer, you generally will have until April 15, 2003, to make your contribution for the 2002 tax year. In previous years, contributions were required to be made by December 31.

Correcting excess contributions. The 6% excise tax on excess contributions will not apply to any excess contributions withdrawn by June 1 of the following year if the earnings on the excess are also withdrawn. Previously, these amounts had to be withdrawn by the due date for the beneficiary’s return or, if no return was required, by April 15 of the following year.

Qualified expenses. The definition of qualified education expenses has been expanded to include elementary and secondary education expenses. Qualified elementary and secondary education expenses include expenses for:

- Tuition, fees, academic tutoring, special needs services in the case of a special needs beneficiary, books, supplies, and other equipment incurred in connection with enrollment or attendance as an elementary or secondary school student at a public, private, or religious school,
- Room and board, uniforms, transportation, and supplementary items and services (including extended

day programs) which are required or provided by a public, private, or religious school in connection with such enrollment or attendance, and

- The purchase of computer technology or equipment or Internet access and related services, if such technology, equipment, or services are to be used by the beneficiary and the beneficiary’s family during any of the years the beneficiary is in school (not including expenses for computer software designed for sports, games, or hobbies unless the software is predominantly educational in nature).

Special needs beneficiaries. You can continue to make contributions to a Coverdell ESA for a special needs beneficiary after his or her 18th birthday.

You can also leave assets in a Coverdell ESA set up for a special needs beneficiary after the beneficiary reaches age 30.

Coordination with Hope and lifetime learning credits. You can claim the Hope or lifetime learning credit in the same year you take a tax-free distribution from a Coverdell ESA, provided the distribution from the Coverdell ESA is not used for the same expenses for which the credit is claimed. Previously, you could not claim the Hope or lifetime learning credit if you received a tax-free withdrawal from a Coverdell ESA and did not waive the tax-free treatment of the withdrawal.

Coordination with qualified tuition programs (QTPs). You can make contributions to Coverdell ESAs and qualified tuition programs in the same year for the same beneficiary. Previously, you could only make contributions to one program or the other.

New Deduction for Higher Education Expenses

Beginning in 2002, you may be able to deduct qualified tuition and related expenses paid during the year for yourself, your spouse, or a dependent, even if you do not itemize deductions on Schedule A, Form 1040.

Qualified tuition and related expenses. In general, qualified tuition and related expenses are tuition and fees paid for you, your spouse, or a dependent for whom you claim an exemption that are required for enrollment or attendance at an **eligible educational institution**.

Student-activity fees and fees for course-related books, supplies, and equipment are included in qualified tuition and related expenses **only** if the fees must be paid **to the institution** as a condition of enrollment or attendance.

Eligible educational institution. An eligible educational institution is any college, university, vocational school, or other postsecondary educational institution eligible to participate in a student aid program administered by the Department of Education. It includes virtually all accredited, public, nonprofit, and proprietary (privately owned profit-making) postsecondary institutions. The educational institution should be able to tell you if it is an eligible educational institution.

Adjustments to qualified expenses. You must reduce your qualified expenses by the amount of any tax-free

2001

Instructions for Form 8606

Nondeductible IRAs and Coverdell ESAs

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



Department of the Treasury
Internal Revenue Service

complete document

General Instructions

A Change To Note

Education IRAs are now called Coverdell education savings accounts (ESAs).

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,
- Distributions from Coverdell ESAs, and
- Conversions from traditional, SEP, or SIMPLE IRAs to Roth IRAs.

Additional information. See **Pub. 590**, Individual Retirement Arrangements (IRAs), for more details on IRAs and **Pub. 970**, Tax Benefits for Higher Education, for more details on Coverdell ESAs.

TIP If you received distributions from a traditional, SEP, or SIMPLE IRA in 2001 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 23; Form 1040A, line 16; or Form 1040NR, line 24.

Who Must File

File Form 8606 if any of the following apply.

- You made nondeductible contributions to a traditional IRA for 2001.
- You received distributions from a traditional, SEP, or SIMPLE IRA in 2001 (other than a rollover, conversion, recharacterization, or return of certain contributions) **and** you have ever made nondeductible contributions to a traditional IRA.
- You converted an amount from a traditional, SEP, or SIMPLE IRA to a Roth IRA in 2001 (unless you recharacterized the entire conversion—see page 2).

- You received distributions from a Roth IRA in 2001 (other than a rollover, recharacterization, or return of certain contributions).
- You received distributions as the beneficiary of a Coverdell ESA in 2001 (other than a rollover or return of excess contributions).

Note: If you recharacterized a 2001 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 2.



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

1998 Roth IRA Conversions

If you converted a traditional or SEP IRA to a Roth IRA in 1998 and are reporting the taxable portion over 4 years, the portion, if any, of the taxable amount of the conversion (shown on your 1998 Form 8606, line 16) not taxed in 1998, 1999, and 2000 is taxable in 2001. The 2001 taxable amount is generally the amount from your 1998 Form 8606, line 17, reduced (but not below zero) by the totals of the amounts on your 1998 Form 8606, line 22; 1999 Form 8606, line 21; and 2000 Form 8606, line 21. However, if you rounded the amount on line 17 of your 1998 Form 8606 to the next higher whole dollar, the 2001 taxable portion cannot exceed the amount from your 1998 Form 8606, line 16, reduced (but not below zero) by (a) 3 times the amount on your 1998 Form 8606, line 17, plus (b) the total of the amounts on your 1998 Form 8606, line 22; 1999 Form 8606, line 21; and 2000 Form 8606, line 21.

How To Report

Report the 2001 taxable portion of your 1998 Roth IRA conversion as follows.

- If you did not receive a Roth IRA distribution in 2001, include the 2001 taxable portion on Form 1040, line 15b; Form 1040A, line 11b; or Form 1040NR, line 16b.
- If you received a Roth IRA distribution in 2001, complete Part III of Form 8606. If you rounded the amount on line 17 of your 1998 Form 8606 to the next higher whole dollar, do not enter on line 26 more than your 2001 taxable amount. (If your

2001 taxable amount is zero, do not complete lines 24 through 26.)

When and Where To File

File Form 8606 with your 2001 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

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. 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.

Coverdell ESAs

A Coverdell ESA is an account created exclusively for paying the qualified higher

education expenses of a designated beneficiary. See [Pub. 970](#) for details.

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.

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. Because 1998 was the first year for which Roth IRA contributions or conversions could be made, no Roth IRA distribution prior to 2003 is a qualified distribution.

Contributions. You can contribute to a Roth IRA for 2001 only if your 2001 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 2001,
- \$160,000 if married filing jointly, or
- \$110,000 if single, head of household, or qualifying widow(er), or if married filing

separately and you did not live with your spouse at any time in 2001.

Use the **Maximum Roth IRA Contribution Worksheet** below to figure the maximum amount you can contribute to a Roth IRA for 2001. If you are married filing jointly, complete the worksheet separately for you and your spouse.



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

Modified AGI for Roth IRA purposes.

First, figure your AGI (Form 1040, line 33; Form 1040A, line 19; or Form 1040NR, line 33). 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.
 - IRA deduction from Form 1040, line 23; Form 1040A, line 16; or Form 1040NR, line 24.
 - Student loan interest deduction from Form 1040, line 24; Form 1040A, line 17; or Form 1040NR, line 25.
 - Exclusion of interest from **Form 8815**, Exclusion of Interest From Series EE and I U.S. Savings Bonds Issued After 1989.
 - Exclusion of employer-provided adoption benefits from **Form 8839**, Qualified Adoption Expenses.
 - Foreign earned income exclusion from **Form 2555**, Foreign Earned Income, or **Form 2555-EZ**, Foreign Earned Income Exclusion.
 - Foreign housing exclusion or deduction from Form 2555.



*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 I Contribute to a Roth IRA?** in [Pub. 590](#) for details.*

Distributions. See the instructions for Part III beginning on page 6.

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 \$2,000 or your taxable compensation (defined below). If you are married filing jointly, your contribution limit is generally \$2,000 (and your spouse's contribution limit is \$2,000 as well). But if the combined taxable compensation of both you and your spouse is less than \$4,000, see [Pub. 590](#) for special rules. This limit does not apply to employer contributions to a SEP or SIMPLE IRA.



*The amount you may contribute to a Roth IRA may also be limited by your modified AGI (see **Roth IRAs** on this page).*

Taxable compensation includes the following.

- Wages, salaries, tips, etc. If you received a distribution from a nonqualified deferred compensation plan or section 457 plan that is included in box 1 of your W-2 form, **do not** include that distribution in taxable compensation. The distribution should be shown in box 11 of your W-2 form. 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 may 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

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 \$4,000, **do not** use this worksheet. Instead, see [Pub. 590](#) for special rules.*

1	If married filing jointly, enter \$2,000. All others, enter the smaller of \$2,000 or your taxable compensation (defined on this page)	1	_____
2	Enter your total contributions to traditional IRAs for 2001	2	_____
3	Subtract line 2 from line 1	3	_____
4	Enter: \$160,000 if married filing jointly; \$10,000 if married filing separately and you lived with your spouse at any time in 2001. All other(s), 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 2001. See Recharacterizations on this page if you made Roth IRA contributions for 2001	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). Do not enter more than "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 2001 Roth IRA Contribution. Enter the smaller of line 3 or line 9. See Recharacterizations on this page if you contributed more than this amount to Roth IRAs for 2001	10	_____

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 still may 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 4). 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. 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 2001 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 on Form 1040, line 15a; Form 1040A, line 11a; or Form 1040NR, line 16a. If the recharacterization occurred in 2001, also include the amount transferred back from the Roth IRA on that line. If the recharacterization occurred in 2002, report the amount transferred only in the attached statement, and not on your 2001 or 2002 tax return (you should receive a 2002 Form 1099-R by January 31, 2003, 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 22, 2001. On April 10, 2002, you determine that your 2001 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 2001 (you also do not report that amount on your 2002 return because it does not apply to the 2002 tax year). You attach a statement to Form 1040 explaining that you made a conversion of \$20,000 from a traditional IRA on May 22, 2001, and that you recharacterized the entire amount, which was then valued at \$19,000, back to a traditional IRA on April 10, 2002, because your 2001 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 2001, 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 2002, report the amount transferred only in the attached statement.

Example. You are single, covered by a retirement plan, and you contributed \$2,000 to a new traditional IRA on May 31, 2001. On February 24, 2002, you determine that your 2001 modified AGI of \$38,000 limits the amount of your traditional IRA deduction to \$1,000. The value of your traditional IRA on that date is \$2,200. You decide to recharacterize \$1,000 of the traditional IRA contribution as a Roth IRA contribution, and have \$1,100 (\$1,000 contribution plus \$100 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 \$2,000 to a traditional IRA on May 31, 2001; recharacterized \$1,000 of that contribution on February 24, 2002, by transferring \$1,000 plus \$100 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 \$1,100 distribution from your traditional IRA on your 2001 Form 1040 because the distribution occurred in 2002. You do not report the distribution on your 2002 Form 1040 because the recharacterization related to 2001 and was explained in an attachment to your 2001 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 2001, 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 2002, report the amount transferred only in the attached statement, and not on your 2001 or 2002 tax return.

Example. You are single and contributed \$2,000 to a new Roth IRA on June 14, 2001. On December 26, 2001, you determine that your 2001 modified AGI will allow a full traditional IRA deduction. You decide to recharacterize the Roth IRA contribution as a traditional IRA contribution and have \$2,178, the balance in the Roth IRA account (\$2,000 contribution plus \$178 related earnings), transferred from your Roth IRA to a traditional IRA in a trustee-to-trustee transfer. You deduct the \$2,000 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 \$2,000 to a new Roth IRA on June 14, 2001; recharacterized that contribution on December 26, 2001, by transferring \$2,178, the balance in the Roth IRA, to a traditional IRA in a trustee-to-trustee transfer; and that \$2,000 of the traditional IRA contribution is deducted on Form 1040. You include the \$2,178 distribution on your 2001 Form 1040, line 15a.

Return of IRA Contributions

If, in 2001, you made traditional IRA contributions or Roth IRA contributions for 2000 or 2001, **and** you had those contributions returned to you with any related earnings (or less any loss) by the due date (including extensions) of your tax return for the year for which the contribution was made, 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 2001 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 **may not** 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 2001 tax return without withdrawing a contribution that you made for 2001, you may still have the contribution returned to you within 6 months of the due date of your 2001 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 for 2001 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).

You or the trustee of your IRA may figure the earnings (or loss) as provided in Notice 2000-39, 2000-2 C.B. 132. You can find Notice 2000-39 on page 132 of Internal Revenue Bulletin 2000-30 at www.irs.gov. 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 for 2000 and you had it returned to you **do not** report the distribution on your 2001 tax return. Instead, report it on your 2000 tax return in the manner described above. Likewise, report on your 2002 tax return any distribution made in 2002 that is a return of contributions that were made in

2002 for 2001 (but be sure that your original or amended 2001 tax return reflects that the contribution is treated as not having been contributed).

Example. On May 31, 2001, you contributed \$2,000 to your traditional IRA. The value of the IRA was \$18,000 prior to the contribution. On December 28, 2001, when you are age 57 and the value of the IRA is \$21,600, you realize you cannot make the contribution because your earned income for the year will be only \$800. You decide to have \$1,200 of the contribution returned to you and withdraw \$1,296 from your IRA (\$1,200 contribution plus \$96 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 \$20,000 (the value of the IRA immediately after the contribution) and multiplying the result by \$1,200 (the amount being returned). You are not required to file Form 8606. You deduct the \$800 remaining contribution on Form 1040. You include \$1,296 on Form 1040, line 15a, and \$96 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 \$96 of earnings is subject to the additional 10% tax on early distributions. You include \$9.60 on Form 1040, line 55.

Return of Excess Traditional IRA Contributions

The return (distribution) in 2001 of excess traditional IRA contributions for years prior to 2001 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 3).

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 \$2,000 (\$2,250 for years before 1997). If your total IRA contributions for the year included employer contributions to a SEP IRA, increase the \$2,000 (or \$2,250, if applicable) by the smaller of the employer contributions or \$30,000.

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

However, report the distribution on Form 8606 as follows. Complete lines 1 through 5 of Form 8606. Include the amount of the withdrawn contribution on line 13, not line 7. Complete line 14, which will reflect your basis after withdrawing the 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.

Example. You are single, you retired in 1998, and you had no earned income after 1998. However, you made traditional IRA contributions (that you did not deduct) of \$2,000 in 1999 and 2000. In November 2001, a tax practitioner informed you that you had made excess contributions for those years because you had no earned income. You withdrew the \$4,000 and filed amended returns for 1999 and 2000 reflecting the additional 6% tax on excess contributions on Form 5329. You include the \$4,000 distribution on your 2001 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 1999 and 2000 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 1999 and 2000 tax returns, including extensions, **(b)** your total IRA contributions did not exceed \$2,000 for 1999 or 2000, and **(c)** you did not take a deduction for the contributions, and no deduction was allowable because you did not have any earned income for those years. The statement also indicates that the distribution reduced your excess contributions to zero, as reflected on your 2001 Form 5329.

Amending Form 8606

After you file your return, you may change a nondeductible contribution to a deductible contribution or vice versa. You also may be able to make a recharacterization (see page 2). 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 for 2001 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, and Coverdell ESAs, 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, Roth IRA, or Coverdell ESA.
- Forms 5498 or similar statements you received showing the value of your traditional IRAs and Coverdell ESAs 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 (line 8 of the Form 1040A worksheet) (or the amount you chose to deduct on Form 1040, line 23, or Form 1040A, line 16, if less) from the **smaller** of line 8 or line 9 of the worksheet (line 6 or line 7 of the Form 1040A worksheet). Enter the result on line 1 of Form 8606. You cannot deduct the amount included on line 1.

If you used the **Worksheet for Reduced IRA Deduction** 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 may 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 3.

Line 2

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

IF the last Form 8606 you filed was for...	THEN enter on line 2...
A year after 1992	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 2001 in 2001 and 2002 and you have both deductible and nondeductible contributions, you may choose to treat the contributions made in 2001 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 2001.

Example. You made contributions for 2001 of \$1,000 in May 2001 and \$1,000 in January 2002, of which \$1,500 are deductible and \$500 are nondeductible. You choose \$500 of your contribution in 2001 to be nondeductible. You enter the \$500 on line 1, but not line 4, and it becomes part of your basis for 2001.

Although the contributions to traditional IRAs for 2001 that you made from January 1, 2002, through April 15, 2002, can be treated as nondeductible, they are not included in figuring the nontaxable part of any distributions you received in 2001.


Line 6

Enter the total value of **all** your traditional, SEP, and SIMPLE IRAs as of December 31, 2001, **plus** any outstanding rollovers. You should receive a statement by January 31, 2002, showing the value of each IRA on December 31, 2001.

However, if you recharacterized any amounts, enter on line 6 the total value taking into account all recharacterizations, including recharacterizations made after December 31, 2001.

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 2001 (from November 2 through December 31) that was rolled over after December 31, 2001, but within the 60-day rollover period.

Line 7

 **CAUTION** If you received a distribution in 2001 from a traditional, SEP, or SIMPLE IRA and you also made contributions for 2001 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, 2001.
- Outstanding rollovers included on line 6.
- Distributions that are treated as a return of contributions under **Return of IRA Contributions** on page 3.
- 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 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. Attach a statement to your return explaining the distribution and include the total amount distributed on Form 1040, line 15a; Form 1040A, line 11a; or Form 1040NR, line 16a. Include in

the explanation the character of any amounts remaining in your traditional IRAs, such as the amount attributable to deductible contributions, nondeductible contributions, etc. If you have ever made nondeductible contributions to a traditional IRA, file Form 8606 and reflect your new basis on line 14.

Line 8

If, in 2001, 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 2001 any portion that you recharacterized back to traditional, SEP, or SIMPLE IRAs in 2001 or 2002 (see **Recharacterizations** on page 2). **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.

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 55.

Part II—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 2001, 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 2001 and then recharacterized the amount back to a traditional, SEP, or SIMPLE IRA, you may not reconvert that amount until the **later** of January 1, 2002, or 30 days after the recharacterization. See Pub. 590 for details.



*You may not convert any amount to Roth IRAs in 2001 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 2001. If you erroneously made a conversion, you must recharacterize the converted amount. See **Recharacterizations** on page 2.*

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 2001 Roth IRA distributions (other than rollovers, recharacterizations, or distributions of certain contributions—see page 3).

Distributions from Roth IRAs are applied in the following order.

- 1.** Regular Roth IRA contributions. These amounts (not previously distributed) are shown on line 20. The distribution shown on line 19 is not included in income to the extent it does not exceed the amount on line 20.
- 2.** Amounts converted from traditional, SEP, or SIMPLE IRAs to Roth IRAs. These amounts (not previously distributed) are shown on line 22. The amount on line 21 is not included in income to the extent it does not exceed the amount on line 22.
- 3.** Earnings. Any remaining amount is earnings, which are included in income because the distribution is not a qualified distribution (see page 2). This amount is figured on line 23.

Line 19

Do not include on line 19 any of the following.

- Distributions that you rolled over, including distributions made in 2001 and rolled over after December 31, 2001 (outstanding rollovers).
- Recharacterizations.
- Distributions that are a return of contributions under **Return of IRA Contributions** on page 3.
- Distributions 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. Attach a statement to your return explaining the distribution and include the total amount distributed on Form 1040, line 15a; Form 1040A, line 11a; or Form 1040NR, line 16a. Include in the explanation the amount attributable to regular contributions, taxable conversions, nontaxable conversions, etc.

Line 20

Figure the amount to enter on line 20 as follows.

- If you did not take a Roth IRA distribution before 2001 (other than an amount rolled over or recharacterized or a returned contribution), enter on line 20 the total of all your regular contributions to Roth IRAs for 1998, 1999, and 2000 (excluding rollovers and any contributions that you had returned to you), adjusted for any recharacterizations.
- If you did take such a distribution before 2001, use the chart on this page to figure the amount to enter.

Line 22

Figure the amount to enter on line 22 as follows.

- If you have never made a Roth IRA conversion, enter -0- on line 22.
- If you took a Roth IRA distribution (other than an amount rolled over or recharacterized or a returned

Basis in Regular Roth IRA Contributions—Line 20

IF the most recent year prior to 2001 in which you took a Roth IRA distribution* was...	THEN enter on Form 8606, line 20, this amount...	PLUS the total of all your regular contributions** to Roth IRAs for...
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
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 and 2001
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 2001
Did not take a Roth IRA distribution* prior to 2001	\$0	1998 through 2001
*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.		

Basis in Roth IRA Conversions—Line 22

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


contribution) before 2001 in excess of your basis in regular Roth IRA contributions, use the chart on this page to figure the amount to enter on line 22. You took such a distribution if you had an amount on your 1998 Form 8606, line 20; 1999 Form 8606, line 19; or 2000 Form 8606, line 19.

- If you did not take such a distribution before 2001, enter on line 22 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 Form 8606.

Additional 10% Tax

There generally is an additional 10% tax on 2001 distributions from a Roth IRA that are shown on line 21 if you were under age 59½ at the time of the distribution. The additional tax is figured in Part I of Form 5329. See the instructions for Form 5329, line 1, for details and exceptions.

Part IV—Distributions From Coverdell ESAs

 *If the total Coverdell ESA contributions made in 2001 on behalf of the beneficiary are more than \$500 (or more than the total amount allowed to be contributed by all contributors to the account, if less), the excess contributions (plus related earnings or less any loss) must be distributed by the due date (including extensions) of the beneficiary's tax return (or by April 15, 2002, if the beneficiary is not required to file a return). Otherwise, the beneficiary is subject to the additional 6% tax on excess contributions. See Pub. 970 and Form 5329 for details, including how to figure the additional tax.*

Line 28

Enter the total Coverdell ESA distributions (withdrawals) received in 2001. Do not include amounts rolled over within 60 days (only one rollover is allowed during any 12-month period). Also, do not include contributions that were distributed with the related earnings (or less any loss) by the due date of the beneficiary's tax return, including extensions (or by April 15, 2002, if the beneficiary is not required to file a tax return). **Do not** deduct any loss that occurred. Report the total amount withdrawn on line 15a and any related earnings on line 15b if filing Form 1040, lines 11a and 11b if filing Form 1040A, or lines 16a and 16b if filing Form 1040NR. Withdrawn contributions are treated as if they were never contributed for basis purposes and are not reported on Form 8606.

If the beneficiary reaches age 30 or dies, the account balance generally must be distributed to the beneficiary (or to the estate of the beneficiary) within 30 days. However, any balance in a Coverdell ESA generally may be rolled over to a Coverdell ESA of a family member under age 30. (The same result may be accomplished by changing the beneficiary of the existing Coverdell ESA.) If a rollover is made from one family member's Coverdell ESA to another's, attach a statement to the tax return of the beneficiary of the Coverdell ESA from which the rollover was made. Indicate on the statement the amount and date of the rollover, and the name and SSN of the family member to whose Coverdell ESA the rollover was contributed. Also, report the amount of the rollover on Form 1040, line 15a; Form 1040A, line 11a; or Form 1040NR, line 16a. See Pub. 970 for details.

Line 29

Qualified higher education expenses include tuition, fees, books, supplies, and equipment required for the attendance of the beneficiary at an eligible educational institution. Education expenses also include the cost of room and board while attending the educational institution, if the student is attending at least half-time. See Pub. 970 for details.

Amounts paid to a qualified state tuition program for the beneficiary are also treated as qualified higher education expenses.

The Hope and lifetime learning credits (education credits) may not be claimed in 2001 for a student's expenses if the student takes a tax-free withdrawal from a Coverdell ESA in 2001. To allow the education credits to be claimed for the student's expenses, check "Yes" on line 29. Checking this box indicates you are waiving any exclusion from income of a distribution from a Coverdell ESA.

Note: *No deduction or credit (for example, a business expense deduction for education expenses on Schedule C or C-EZ (Form 1040) or miscellaneous itemized deduction on Schedule A (Form 1040)) is allowed for any qualified education expenses to the extent the expenses are used in determining the exclusion for a Coverdell ESA distribution.*

Line 30

Instructions for Coverdell ESA Worksheet

Line 2. Your basis in each Coverdell ESA as of December 31, 2000, is the total of all contributions to the Coverdell ESA in 1998, 1999, and 2000, less the nontaxable portion of any distributions you received in 1998, 1999, and 2000. If you previously took a distribution from this Coverdell ESA, your basis is shown on the last line of the worksheet in the Instructions for Form 8606 that you completed for the most recent year for which you took a distribution. Increase that amount by any contributions to that Coverdell ESA for years after the last year for which you took a distribution.

Line 7. Enter the total value of this Coverdell ESA as of December 31, 2001, plus any outstanding rollovers contributed to the account after December 31, 2000, but before the end of the 60-day rollover period. You should receive a statement by January 31, 2002, for each Coverdell ESA showing the value on December 31, 2001.

A **rollover** is a tax-free distribution from one Coverdell ESA that is contributed to another Coverdell ESA. The rollover must be completed within 60 days of receiving the distribution from the first Coverdell ESA. An **outstanding**

rollover is any amount distributed within 60 days before the end of 2001 (November 2 through December 31) that was rolled over after December 31, 2001, but within the 60-day rollover period.

Additional 10% Tax

If you have an amount on line 30, you may be subject to an additional 10% tax figured on Form 5329.

Exceptions. The additional tax does not apply to distributions that are:

- Taxable solely because you checked "Yes" on line 29,
- Due to the death or disability of the beneficiary, or

- Made on account of a scholarship, allowance, or payment described in section 25A(g)(2).

See the Instructions for Form 5329 for details.

Coverdell ESA Worksheet (keep for your records)

If line 28 is more than line 29 on Form 8606, use this worksheet to figure the amount of taxable distributions you received from each Coverdell ESA in 2001.

Complete lines 1 through 16 separately for each of your Coverdell ESAs.

1 Enter the amount contributed to this Coverdell ESA in 2001	1	
2 Enter your basis in this Coverdell ESA as of December 31, 2000 (see instructions)	2	
3 Add lines 1 and 2	3	
4 Enter the total amount of all distributions you received from this Coverdell ESA in 2001. Do not include rollovers or the return of excess contributions	4	
5 Enter the amount of qualified higher education expenses from Form 8606, line 29, attributable to distributions from this Coverdell ESA	5	
6 Subtract line 5 from line 4	6	
7 Enter the total value of this Coverdell ESA as of December 31, 2001, plus any outstanding rollovers (see instructions)	7	
8 Add lines 4 and 7	8	
9 Divide line 3 by line 8 and enter the result as a decimal (rounded to at least 3 places). Do not enter more than "1.000"	9	
10 Multiply line 4 by line 9. This is the nontaxable portion of your distributions from this Coverdell ESA	10	
Note: If line 6 is zero, skip lines 11 through 14, enter -0- on line 15, and go to line 16.		
11 Subtract line 10 from line 4	11	
12 Did you check Yes on line 29 of the form?		
<input type="checkbox"/> Yes. Enter the amount from line 11 on line 15 and go to line 16.		
<input type="checkbox"/> No. Go to line 13.		
13 Divide line 5 by line 4 and enter the result as a decimal (rounded to at least 3 places). Do not enter more than "1.000"	13	
14 Multiply line 11 by line 13	14	
15 Subtract line 14 from line 11. This is the portion of the distributions you received from this Coverdell ESA in 2001 that you must include in income. Enter the result here and include it on line 30 of Form 8606	15	
16 Subtract line 10 from line 3. This is your basis in this Coverdell ESA as of December 31, 2001	16	

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. 24 min.
Learning about the law or the form	1 hr. 39 min.
Preparing the form	1 hr., 24 min.
Copying, assembling, and sending the form to the IRS	52 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.

Nondeductible IRAs and Coverdell ESAs

Department of the Treasury
Internal Revenue Service (99)

▶ See separate instructions.
▶ Attach to Form 1040, Form 1040A, or Form 1040NR.

Attachment
Sequence No. **48**

Name. If married, file a separate form for each spouse required to file Form 8606. See page 5 of the instructions.

Your social security number

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

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

Complete Part I only if:

- You made nondeductible contributions to a traditional IRA for 2001,
- You took distributions from a traditional, SEP, or SIMPLE IRA in 2001 (other than a rollover, conversion, recharacterization, or return of certain contributions) **and** you made nondeductible contributions to a traditional IRA in 2001 or an earlier year, **or**
- You converted part, but not all, of your traditional, SEP, and SIMPLE IRAs to Roth IRAs in 2001 (excluding any portion you recharacterized) **and** you made nondeductible contributions to a traditional IRA in 2001 or an earlier year.

1	Enter your nondeductible contributions to traditional IRAs for 2001, including those made for 2001 from January 1, 2002, through April 15, 2002 (see page 5 of the instructions)	1		
2	Enter your total basis in traditional IRAs for 2000 and earlier years (see page 5 of the instructions)	2		
3	Add lines 1 and 2	3		
	<div style="border: 1px solid black; padding: 5px; display: inline-block;"> In 2001, 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, 2002, through April 15, 2002	4		
5	Subtract line 4 from line 3	5		
6	Enter the value of all your traditional, SEP, and SIMPLE IRAs as of December 31, 2001, plus any outstanding rollovers (see page 5 of the instructions)	6		
7	Enter your distributions from traditional, SEP, and SIMPLE IRAs in 2001. Do not include rollovers, conversions to a Roth IRA, certain returned contributions, or recharacterizations of traditional IRA contributions (see page 5 of the instructions)	7		
8	Enter the net amount you converted from traditional, SEP, and SIMPLE IRAs to Roth IRAs in 2001. Do not include any portion of an amount converted that you later recharacterized (see page 6 of the instructions). Also enter this amount on line 16	8		
9	Add lines 6, 7, and 8	9		
10	Divide line 5 by line 9. Enter the result as a decimal rounded to at least 3 places. If the result is 1.0 or more, enter 1.0	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	12		
13	Add lines 11 and 12. This is the nontaxable portion of all your distributions	13		
14	Subtract line 13 from line 3. This is your total basis in traditional IRAs for 2001 and earlier years.	14		
15	Taxable distributions from traditional, SEP, and SIMPLE IRAs. Subtract line 12 from line 7. Also include this amount on Form 1040, line 15b; Form 1040A, line 11b; or Form 1040NR, line 16b.	15		

Note: You may be subject to an additional 10% tax on the amount on line 15 if you were under age 59½ at the time of the distribution (see page 6 of the instructions).

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

Complete Part II if you converted part or all of your traditional, SEP, and SIMPLE IRAs to a Roth IRA in 2001 (excluding any portion you recharacterized).

Caution: *If your modified adjusted gross income is over \$100,000 or you are married filing separately and you lived with your spouse at any time in 2001, you cannot convert any amount from traditional, SEP, or SIMPLE IRAs to Roth IRAs for 2001. If you erroneously made a conversion, you must recharacterize (correct) it (see page 6 of the instructions).*

16	Enter the net amount you converted from traditional, SEP, and SIMPLE IRAs to Roth IRAs in 2001. Do not include any portion that you later recharacterized back to traditional, SEP, or SIMPLE IRAs in 2001 or 2002. If you completed Part I, enter the amount from line 8. Otherwise, see page 6 of the instructions	16	
17	Enter your basis in the amount on line 16. If you completed Part I, enter the amount from line 11. Otherwise, see page 6 of the instructions	17	
18	Taxable amount of Roth IRA conversions. Subtract line 17 from line 16. Also include this amount on Form 1040, line 15b; Form 1040A, line 11b; or Form 1040NR, line 16b	18	

Part III Distributions From Roth IRAs

Complete Part III only if you took a distribution from a Roth IRA in 2001 (other than a rollover, recharacterization, or return of certain contributions—see page 6 of the instructions).

19	Enter your total distributions from Roth IRAs in 2001. Do not include rollovers, recharacterizations of Roth IRA conversions or contributions, or certain returned contributions (see page 6)	19	
20	Enter your basis in Roth IRA contributions (see page 6 of the instructions)	20	
21	Subtract line 20 from line 19 (see Note below). If zero or less, enter -0- and skip lines 22 and 23	21	
22	Enter your basis in Roth IRA conversions (see page 6 of the instructions)	22	
23	Subtract line 22 from line 21. If zero or less, enter -0-	23	
If you made a Roth IRA conversion in 1998 and are reporting the taxable portion over 4 years, go to line 24. Otherwise, skip lines 24 through 26 and go to line 27.			
24	Enter the amount from your 1998 Form 8606, line 17	24	
25	Enter the sum of the amounts, if any, on your: 1998 Form 8606, line 22; 1999 Form 8606, line 21; and 2000 Form 8606, line 21.	25	
26	Subtract line 25 from line 24. If zero or less, enter -0-	26	
27	Taxable distributions from Roth IRAs. Add lines 23 and 26. Also include this amount on Form 1040, line 15b; Form 1040A, line 11b; or Form 1040NR, line 16b	27	
Note: <i>You may be subject to an additional tax on Form 5329 of up to 10% of the amount on line 21 if you were under age 59½ at the time of the distribution (see page 7 of the instructions).</i>			

Part IV Distributions From Coverdell Education Savings Accounts (ESAs)

Complete Part IV only if you took a distribution from a Coverdell ESA in 2001, other than a rollover or returned excess contributions (see page 7 of the instructions).

28	Enter your total distributions from Coverdell ESAs in 2001. Do not include rollovers or returned excess contributions	28	
29	Do you elect to waive the exclusion from income for Coverdell ESA distributions? If you check "No" and exclude from income any portion of your Coverdell ESA distributions, no one may claim a Hope or lifetime learning credit for your 2001 qualified higher education expenses. <input type="checkbox"/> Yes. Enter -0-. <input type="checkbox"/> No. Enter your qualified higher education expenses for 2001. }	29	
30	Taxable amount. Is line 28 equal to or less than line 29? <input type="checkbox"/> Yes. Enter -0-. None of your Coverdell ESA distributions are taxable for 2001. Keep a copy of this form to figure your basis in future years (see page 7 of the instructions). <input type="checkbox"/> No. See the worksheet on page 8 of the instructions for the amount to enter. Also include this amount in the total on Form 1040, line 15b; Form 1040A, line 11b; or Form 1040NR, line 16b. If you checked "No" on line 29, see page 8 of the instructions to find out if you owe an additional 10% tax on Form 5329. }	30	

Sign Here Only if You Are Filing This Form by Itself and Not With Your Tax Return

Under penalties of perjury, I declare that I have examined this form, including accompanying attachments, and to the best of my knowledge and belief, it is true, correct, and complete.

Your signature

Date

