

MEMO# 10823

March 22, 1999

IRS RELEASES SUPPLEMENTAL INSTRUCTIONS FOR 1998 FORM 8606

[10823] March 22, 1999 TO: PENSION MEMBERS No. 17-99 PENSION OPERATIONS
ADVISORY COMMITTEE No. 20-99 RE: IRS RELEASES SUPPLEMENTAL INSTRUCTIONS FOR
1998 FORM 8606

The Internal Revenue Service has released Announcement 99-18, which provides supplemental instructions for the completion of 1998 Form 8606, Nondeductible IRAs. Specifically it clarifies the following: (1) the proper reporting for Roth IRA conversions and recharacterizations; (2) the proper computation of the 10% additional tax for early distributions from Roth conversions and subsequent withdrawals from Roth IRA accounts; and (3) the computation of modified AGI for purposes of Roth IRAs on page 2 and the Education IRA Contribution worksheet on page 3 in the separate instructions for Form 8606. With respect to reporting of Roth IRA conversions and recharacterizations, Announcement 99-18 provides an example of a Roth IRA contribution, a Roth IRA conversion, recharacterization and reconversion. Announcement 99-18 provides specific guidance with respect to how taxpayers should report the transactions on Form 8606, Part II, lines 14-17 and on Form 1040. Announcement 99-18 revises the section regarding the 10% additional penalty as follows: "Note: If you receive a Roth IRA distribution before reaching age 59 1/2, you may be subject to an additional 10% tax. See Form 5329. Include on line 1 of Form 5329 the smaller of the amount on line 20 or the sum of the amounts on lines 16 and 25." With respect to computation of modified AGI for purposes of Roth IRAs, page 2 of the Form 8606 instructions, item 1 under "Modified AGI for purposes of Roth IRAs" should include a reference to Form 1040A, line 10b. The Education IRA Contribution worksheet is revised as follows: line 2 of the worksheet on page 3 of the instructions should read "Enter \$150,000 if married filing jointly; or \$95,000 for all other filers." The referenced amount for married filing separately should be deleted. A copy of Announcement 99-18 is attached. Kathryn A. Ricard Assistant Counsel Attachment Note: Not all recipients receive the attachment. To obtain a copy of the attachment referred to in this Memo, please call the ICI Library at (202) 326-8304, and ask for attachment number 10823. ICI Members may retrieve this Memo and its attachment from ICINet (<http://members.ici.org>).