

The IRA Digest

Retirement Account Strategies and Tips

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The Top 4 Tax Forms for Tax-Efficient Tracking of Your IRA Activity

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Your IRA transactions for 2022 must be accurately reported to the IRS to avoid adverse tax consequences. Depending on the transaction, this reporting must be done by your IRA custodian, your tax preparer, or both. In some cases, your tax preparer will need to expand on reporting done by your IRA custodian so that you can get any tax savings for which you qualify. The following tips for the 4 key IRA tax forms can be used to simplify important reporting requirements.

Inform Your Tax Preparer About Your IRA Transactions

This is one of the most important steps for accurate tax reporting.

You must inform your tax preparer about every deposit and disbursement that you make for your IRA. This is especially helpful for those that require adjustments for you to benefit from favorable tax provisions.

For example, if you take an early (pre age 59½) distribution from your traditional IRA to pay for qualified higher education expenses, your IRA custodian will report to you and the IRS that the distribution is subject to a 10% additional tax (early distribution penalty), even though the amount qualifies for an exemption from this penalty. You must therefore notify your tax preparer that the distribution was used to cover qualified higher education expenses so that they can file IRS *Form 5329, Additional Taxes on Qualified Plans (including IRAs) and Other Tax-Favored Accounts* (Form 5329) to override your IRA custodian's early distribution penalty code.

While the above example applies to distributions, it is in your best interest to inform your tax preparer about your IRA contribution activity as well. See *Form 5498* below.

Your tax preparer is responsible for determining if and how those transactions should be reported on your tax return.

Number 1: Form 1099-R

Any reportable disbursement from your IRA must be reported on IRS *Form 1099-R, Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.* (Form 1099-R). These include distributions that were later rolled over, Roth conversions, return of excess contributions, and recharacterizations of IRA contributions.

Your Form 1099-R should indicate whether the amount is tax-free. For example, if a Form 1099-R is issued for a direct rollover from a traditional IRA to a traditional 401(k) account, the Form 1099-R should indicate that the amount represents a tax-free distribution.

However, where a distribution is not clearly tax-free, your IRA custodian might be required to report the amount as taxable and check the 'taxable amount not determined' box to allow your tax preparer to explain if any portion of that distribution is not taxable. A good example of this is a distribution of basis (after-tax amounts) from your traditional IRA, which would be tax-free. Your tax preparer would need to file IRS *Form 8606, Nondeductible IRAs* (Form 8606) to report how much of the distribution is attributed to basis and therefore nontaxable.

Reminder: If you move assets between two IRAs of the same type- for example, traditional IRA to traditional IRA as a trustee-to-trustee transfer, that transfer should not be reported on IRS Form 1099-R. If you requested a transfer but a Form 1099-R was issued for that amount, contact your IRA custodian to have the 1099-R voided.

Number 2: Form 8606

IRS Form 8606 is used to track basis in your IRA. Examples of basis include nondeductible traditional IRA contributions, and rollovers of after-tax amounts from employer plans to your traditional IRAs. Distributions of these amounts from your traditional IRA are tax-free. However, failing to file Form 8606 could result in these amounts being treated as taxable income on your tax return.

To prevent after-tax amounts from being treated as taxable income on your tax return, Form 8606 should be filed for every nondeductible contribution that you make to your traditional IRA, for any distribution of Roth conversions made from your traditional IRA when your traditional IRA balance includes basis, and for distributions from your Roth IRA.

Important: For this purpose, all of your traditional, SEP and SIMPLE IRAs are aggregated and treated as one traditional IRA.

Number 3: Form 5329

Form 5329 is used to report excise tax for certain transactions. For traditional IRAs, these are:

- The 6% excise tax that applies to an excess IRA contribution that is not corrected by your tax filing due date, plus extensions. In this case, Form 5329 must be filed for every year the excess contribution remains in your IRA.
- The 50% excess accumulation penalty that applies to required minimum distributions (RMD) that are not distributed by the applicable deadline. Form 5329 must be filed to either pay the penalty or request a waiver of the penalty. And,
- The 10% early distribution penalty on distributions taken before you reach age 59½. In this case, the Form 5329 would be filed if the 1099-R does not properly reflect whether the 10% early distribution penalty is owed.

Number 4: Form 5498

Your IRA custodian must report certain contributions on *Form 5498, IRA Contribution Information* (Form 5498) IRS Form 5498. This includes regular contributions to traditional IRAs, regular contributions to Roth IRAs, rollover contributions, Roth conversions, and recharacterizations.

Your IRA custodian is required to issue your Form 5498 for 2021 by May 31, 2022. Since this might be after your tax return would be filed, your tax preparer will not know about those contributions unless you tell them. Notifying your tax preparer will help to ensure that any required reporting is included on your tax return.

Form 5498 is also used to report the fair market value of your IRA as of the end of the previous year, and whether your IRA is subject to RMDs. This RMD reporting requirement does not apply to Roth IRAs and beneficiary IRAs.

Call Us with Questions

We recommend that you review your Forms 1099-R and 5498 along with your tax advisor and contact your IRA custodian immediately if you find that any of the information included on these forms is incorrect. In the meantime, please do not hesitate to contact us with any questions about these forms. For IRAs that you hold with us, we can work with the IRA custodian to make any required corrections.

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