

Figuring Taxable Amount of IRA's with Cost Basis

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It is taxpayer's responsibility to keep track of the cost basis in after-tax traditional IRAs. The IRA custodian does NOT keep track of after-tax contributions. The 1099-R distribution forms will be checked "taxable amount not determined" and there will be no cost basis showing in box 9b. A fractional part of the 1099R distribution is tax free but must be calculated in accordance with IRS procedures.

Use Form 8606 (not the simplified method) to figure the nontaxable portion of IRA distributions and to track the remaining cost basis each year. If form 8606 is filed every year (as required by IRS) the basis will be carried forward year by year. Without this form, IRS will assume that any funds distributed are fully taxable.

Form 8606 is found in the Adjustments section of TaxSlayer. Call up the form and input the following information:

1. IRA balance in **all** TP traditional IRA accounts
2. Total amount of after-tax dollars in **all** TP traditional IRA accounts
3. The amount of this year's distribution

Note 1: TaxSlayer will calculate the percentage of this year's distribution that is taxable and carry that dollar amount to form 8606 (which can only be viewed by creating a PDF). Tax Slayer **will not** carry the correct taxable amount to the 1099R form.

4. Input the correct taxable amount shown on the 8606 PDF to 1099R form, box 2. (This requires an override of information contained in 1099-R box 2)

Note 2: The IRS recently ruled after-tax money in an **employer plan** can be rolled directly into a Roth IRA.

Note 3: There is a \$50 penalty for failing to file Form 8606 when required, but it is in the taxpayer's interest to file the form. A taxpayer who has been lax in filing the form should file a new 8606 to bring the IRS up to date. Advise the taxpayer to keep any supporting documentation in case the IRS questions the newly discovered after-tax funds.