



THE Pension Digest

ALSO IN THIS ISSUE –

Rollover – Not an Option for a Nonspouse IRA Beneficiary, *Page 3*

Recharacterizing a 2001 Contribution in 2002, *Page 3*

Form 8606 as it Relates to Form 1099-R, *Page 8*

What Effect do the Revised RMD Rules Have on Substantially Equal Periodic Payment Schedules?, *Page 8*

Form 8606, *Insert*

Collin W. Fritz and Associates, Inc.,
"The Pension Specialists"



© 2001 Collin W. Fritz and Associates, Ltd. Copyright is not claimed in any material secured from official U.S. Government sources. Published by Collin W. Fritz and Associates, Ltd. Subscription Rate: \$65 per year.

IRS Revises Procedures for Reporting Recharacterizations

In each of the last three years the IRS has changed its procedures for handling the reporting of recharacterizations. The IRS has done so again when it recently issued the 2001 version of Form 8606. A copy of this form is provided as an insert to this newsletter.

You will observe an oddity – the Instructions for the 2001 Form 8606 contain a discussion of recharacterizations, as set forth below, but the form itself no longer contains any sections to insert information with respect to a recharacterization. The IRS has concluded that the best procedure is to have the individual attach an explanation of the recharacterization to his or her tax return.

The IRS' Discussion of Reporting Recharacterizations on page 3 of the Instructions for the Form 8606, the IRS provides:

Reporting Recharacterizations for Tax Year 2001

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.

Situation #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 15(a) because it did not occur in 2001 (you also do

Continued on page 2

**Procedures for Reporting
Continued from page 1**

not report that amount on your 2002 return because it does not apply to the 2002 tax year). You attach a statement to your 2001 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.

Situation #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 tra-

ditional 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.

Situation #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.

These IRS instructions discuss the three situations which may be recharacterized. In the next article we also discuss recharacterizing a 2001 contribution in 2002 and we illustrate how the Form 1099-R and Form 5498 will need to be prepared. Different examples are provided.

The IRS made the following changes to the 2000 Form 8606 to create the 2001 version.

- (1) Lines 14b and 14c have been deleted. (This is where an individual listed any recharacterized amount and then subtracted it from the total amount of the conversion to arrive at the net conversion amount on the 2000 form.)
- (2) Lines 18(a),(b), (c) and (d) have been deleted. (Recharacterizations of 2000 contributions to or from Roth IRAs were listed here.)
- (3) Line 19 now requests total distributions from Roth IRAs in 2001, but you are not to report rollovers or recharacterizations of Roth IRA conversions or contributions.
- (4) Lines 20(a), (b), (c), and (d) have been deleted because the purpose of these lines was for those who chose the four-year spread method in 1998 to only include 1/4 of the amount in income each year, and 2001 is the last year for the use of this method.

Procedures for Reporting, Continued from page 2

Instead of listing recharacterizations on these lines as in the past, the IRS has now adopted the policy that the accountholder attach a statement to their tax return explaining the recharacterization/conversion. CWF has prepared Form 54-TR (see the sample form in this newsletter) which, when filled out by an accountholder, will contain the necessary information the IRS requires, and is suitable to be attached to the individual's tax form as the "explanation" for a recharacterization/conversion.

Rollover — Not an Option for a Nonspouse IRA Beneficiary

At one point in time, the IRS allowed any inheriting beneficiary to convert a decedent's IRA to their own, no matter if the beneficiary was a spouse or nonspouse. Regulation 1.408-2(b)(7)(ii), adopted on 8/7/80 contained this rule. Under this regulation, a 15-year-old boy could be the beneficiary of his deceased 70-year old grandfather's IRA, and could then have tax-deferred income in the IRA for an additional 55 1/2 years (until he reached aged 70 1/2). This was an excellent benefit. However, Congress decided it was indeed "too" good — they enacted legislation to change this rule so that only a surviving spouse can treat an IRA as their own. This legislation is detailed in IRS Code section 408(d)(3)(C).

It states, "408(d)(3)(C) Denial of Rollover Treatment for Inherited Accounts, Etc. — (ii)(II) such individual was not the surviving spouse of such other individual."

This legislation denies rollover treatment if the inheriting beneficiary is a nonspouse, but allows such rollover treatment if the bene-

fiary is the surviving spouse.

Therefore, the authority is statutory for inherited IRAs to not have the ability to be rolled over. This law change was added by public law 97-248, and was first effective for distributions made after 1/1/83.

Summary: A non-spouse beneficiary can never roll over an inherited IRA. Also, once the distribution is made, the funds are taxable income to the beneficiary in the year received. The funds cannot be recontributed to the IRA to avoid a taxable event. A transfer is permissible.



Recharacterizing a 2001 Contribution in 2002

This time of year is the season for recharacterizations. People are visiting their tax accountants. The accountants will be telling some of your accountholders they were ineligible to convert their traditional IRA to a Roth IRA in 2001, or, if eligible to perform the conversion transaction, that it was not in their best interest to have done so. Or, they may tell the accountholder that they were ineligible to make a \$2,000 contribution to their Roth IRA or that they do not wish to make their contribution to the traditional IRA as it is non-deductible. The point is—you, as an IRA custodian or trustee, can expect to see some of your IRA accountholders instruct you that they want to recharacterize a contribution he or she has made in 2001, for 2001, before he or she files a 2001 federal income tax return in 2002. Most such accountholders will normally complete the recharacterization on or before the tax-filing deadline for 2001. This is April 15, 2002. However, a person will have until October 15, 2002, to recharacterize a contribution. A

person who timely files his or her 2001 income tax return without having made a recharacterization may file an amended return and still make the recharacterization within six months of the due date of his or her return, excluding extensions.

This explanation focuses on how you can assist your customer(s) to understand how he or she will need to handle the recharacterization on his or her 2001 income tax return. Recharacterizations are confusing to everyone involved. This is especially true for 2001 contributions which are recharacterized in 2002, because, as with excess contributions, these recharacterization transactions will be reported on the 2002 Form 1099-R and the 2002 Form 5498, which are not furnished until January of 2003 and May 2003, which is obviously well after the time the accountholder needs the information to file his or her 2001 federal income tax return. This is why the IRS requires an IRA custodian to furnish a written explanation to the accountholder.

Three situations are cov-

ered: (1) recharacterizing a Roth IRA contribution to be a contribution to a traditional IRA; (2) recharacterizing a contribution to a traditional IRA to be a contribution to a Roth IRA and (3) recharacterizing a conversion contribution.

Situation #1. Annual Roth IRA Contribution Recharacterized to a Traditional IRA Contribution

Lisa Water made a \$2,000 contribution to a Roth IRA on 1-10-01, for 2001. The fair market value of this IRA as of 12-31-01 was \$2,100. Lisa is not married and she is not an active participant in an employer-sponsored plan. Her MAGI for 2001 was \$123,000. Therefore, she has determined that she is not eligible to make a contribution to a Roth IRA. There were earnings of \$180 related to the contribution of \$2,000 as of 3-3-02. One of the methods to correct an excess contribution is to recharacterize it. She chose to recharacterize this contribution plus earnings on 3-3-02. The fair market value of this IRA as of 12-31-02 will be \$2,400.

Recharacterizing, Continued from page 3

Step #1. Accountholder Must Instruct to Recharacterize

The individual must instruct you (the IRA custodian) to recharacterize. The individual is required to furnish you with very specific information. You can make his/her task easier by making available to your accountholder a form such as CWF's Notice of Recharac-

terization of IRA Contributions as set forth on page 7.

Step #2. You (the IRA Custodian) Must Furnish an Explanation to the Accountholder

You should furnish an explanation to your accountholder similar to the one below.

Step #3. You Will Prepare the Form 1099-R and Form 5498

1. You will prepare a 2001 Form 5498 to report the original contribution to the Roth IRA of \$2,000 as shown below.

2. You will prepare a 2002 Form 1099-R to report the "deemed" distribution from the Roth IRA to the traditional IRA. It should be reported as follows. Box 2 is to be completed with the gross distribution

amount (\$2,180) and box 2a is to be completed with a 0.00. The reason code in box 7 is to be an "R" for recharacterization.

3. You will prepare a 2002 Form 5498 to report the recharacterized contribution (plus earnings) to the traditional IRA of \$2,000. It should be reported as shown below.

Situation 1, Step #2

Special Explanation to Accountholder for an IRA Recharacterization for the 2001 Tax Year	
Lisa Water	
(Name of Accountholder)	
<p>The purpose of this special explanation is to provide you with information about your recharacterization. You will need to properly report and explain your recharacterization when you file your 2001 federal income tax return. We have furnished to you a copy of the <i>IRA Recharacterization Form</i> which you executed. The IRS' instructions require you, as the IRA accountholder, to do two things if you have recharacterized an IRA contribution.</p> <ul style="list-style-type: none"> First, you will need to complete the 2001 Form 8606 and file it with your 2001 Form 1040 (or similar form). Second, you need to attach an explanation indicating the original contribution amount, the amount which was recharacterized, and the amount of earnings which was recharacterized. <p>You have recharacterized your IRA contribution. Specifically, you instructed us on 3-3-02 to recharacterize a <input type="checkbox"/> traditional <input checked="" type="checkbox"/> Roth (check one) IRA contribution of \$ 2,000.00 which you had made on 1-10-01 for tax year 2001. For federal income tax purposes your contribution will now be treated as if it had been contributed originally to a <input checked="" type="checkbox"/> traditional <input type="checkbox"/> Roth (check one)—must be the opposite of type checked above) IRA. The amount of \$ 2,180.00 has been recharacterized; \$ 2,000.00 was the contribution amount and \$ 180.00 is the related earnings.</p> <p>You should complete line 15(a) of your 2001 Form 1040 (or similar form) with \$ 2,180.00. This is the gross amount you recharacterized. You should also complete line 15(b), the taxable amount, with zero. Thus, you will not be required to include any amount in income for 2001 or 2002 because of your recharacterization.</p> <p>You will want to review the instructions for the Form 8606 before you complete the Form 8606.</p> <p>Accountholder _____ Date _____</p> <p>Custodian _____ Date _____</p>	
<p>IRA #56-TREX (3/02) White — Custodian/Trustee Yellow — Accountholder © 2002 Collin W. Fritz & Associates, Ltd.</p>	

Situation 1, Step #3(1)

Roth IRA Custodian		CORRECTED (if checked)		OMB No. 1545-0747	
TRUSTEE'S or ISSUER'S name, street address, city, state, and ZIP code		1 IRA contributions (other than amounts in boxes 2, 3, 4, and 8-11)		2001	
42-12344567		\$		Form 5498	
PARTICIPANT'S social security number		2 Rollover contributions		IRA Contribution Information	
111-33-5555		\$		Copy B For Participant	
PARTICIPANT'S name		3 Roth conversion amount		4 Recharacterized contributions	
Lisa Water		\$		\$	
Street address (including apt. no.)		5 Fair market value of account		6 Life insurance cost included in box 1	
City, state, and ZIP code		\$ 2100.00		\$	
Account number (optional)		7 IRA SEP SIMPLE		8 SEP contributions	
		Roth IRA Ed IRA		9 SIMPLE contributions	
		X		\$	
		10 Roth IRA contributions		11 Ed IRA contributions	
		\$ 2000.00		\$	

Form 5498 (Keep for your records.) Department of the Treasury - Internal Revenue Service

Situation 1, Step #3(2)

Roth IRA Custodian		VOID CORRECTED		OMB No. 1545-0119	
PAYER'S name, street address, city, state, and ZIP code		1 Gross distribution		2002	
42-12344567		\$ 2180.00		Form 1099-R	
RECIPIENT'S identification number		2a Taxable amount		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.	
111-33-5555		\$ 0.00		Copy A For Internal Revenue Service Center	
RECIPIENT'S name		2b Taxable amount not determined		File with Form 1096.	
Lisa Water		Total distribution		For Privacy Act and Paperwork Reduction Act Notice, see the 2002 General Instructions for Forms 1099, 1098, 5498, and W-2G.	
Street address (including apt. no.)		3 Capital gain (included in box 2a)		4 Federal income tax withheld	
City, state, and ZIP code		\$		\$ 0.00	
Account number (optional)		5 Employee contributions or insurance premiums		6 Net unrealized appreciation in employer's securities	
		\$		\$	
		7 Distribution code		8 Other	
		R		%	
		9a Your percentage of total distribution		9b Total employee contributions	
		%		\$	
		10 State tax withheld		11 State/Payer's state no.	
		\$		\$	
		13 Local tax withheld		14 Name of locality	
		\$		\$	
		15 Local distribution		\$	

Form 1099-R Cat. No. 14436Q Department of the Treasury - Internal Revenue Service

Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page

Situation 1, Step #3(3)

IRA Custodian		VOID CORRECTED		OMB No. 1545-0747	
TRUSTEE'S or ISSUER'S name, street address, city, state, and ZIP code		1 IRA contributions (other than amounts in boxes 2-4 and 8-11)		2002	
42-12344567		\$		Form 5498	
PARTICIPANT'S social security number		2 Rollover contributions		IRA and Coverdell ESA Contribution Information	
111-33-5555		\$		Copy A For Internal Revenue Service Center	
PARTICIPANT'S name		3 Roth IRA conversion amount		File with Form 1096.	
Lisa Water		\$ 2400.00		For Privacy Act and Paperwork Reduction Act Notice, see the 2002 General Instructions for Forms 1099, 1098, 5498, and W-2G.	
Street address (including apt. no.)		4 Recharacterized contributions		6 Life insurance cost included in box 1	
City, state, and ZIP code		\$ 2180.00		\$	
Account number (optional)		5 Fair market value of account		7 IRA SEP SIMPLE	
		\$ 2400.00		Roth IRA Coverdell ESA	
		8 SEP contributions		9 SIMPLE contributions	
		\$		\$	
		10 Roth IRA contributions		11 Coverdell ESA contributions	
		\$		\$	

Form 5498 Cat. No. 50010C Department of the Treasury - Internal Revenue Service

Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page

**Recharacterizing,
Continued from page 4**

Situation #2. Annual Traditional IRA Contribution Recharacterized to be a Roth IRA Contribution

Sara Roe made a \$2,000 contribution to a traditional IRA on 2-10-01, for 2001 rather than a Roth IRA. The fair market value of this traditional IRA was \$2,125 as of 12-31-01. Sara is not married. She is an active participant in an employer-sponsored plan. Her MAGI was \$92,000. There were earnings of \$190 related to the contribution of \$2,000 as of 2-20-02. Sara has determined on 2-20-02 she will recharacterize her traditional IRA contribution to be a Roth IRA contribution because she is not able to claim a deduction for her \$2,000 contribution to the traditional IRA. The

fair market value of this IRA as of 12-31-02 will be \$2,300.

Step #1. Accountholder Must Instruct to Recharacterize

The individual must instruct you (the IRA custodian) to recharacterize. The individual is required to furnish you with very specific information. You can make his or her task easier by making available to your accountholder a form such as CWF's Notice of Recharacterization of IRA Contribution as set forth on page 7, or a similar form.

Step #2. You (IRA Custodian) Must Furnish an Explanation to the Accountholder

You should furnish your accountholder an explanation similar to the one below.

Situation 2, Step #2

Special Explanation to Accountholder for an IRA Recharacterization for the 2001 Tax Year

Sara Roe
(Name of Accountholder)

The purpose of this special explanation is to provide you with information about your recharacterization. You will need to properly report and explain your recharacterization when you file your 2001 federal income tax return. We have furnished to you a copy of the *IRA Recharacterization Form* which you executed. The IRS' instructions require you, as the IRA accountholder, to do two things if you have recharacterized an IRA contribution.

- First, you will need to complete the 2001 Form 8606 and file it with your 2001 Form 1040 (or similar form).
- Second, you need to attach an explanation indicating the original contribution amount, the amount which was recharacterized, and the amount of earnings which was recharacterized.

You have recharacterized your IRA contribution. Specifically, you instructed us on 2-20-02 to recharacterize a traditional Roth (check one) IRA contribution of \$ 2,000.00 which you had made on 2-10-01, for tax year 2001. For federal income tax purposes your contribution will now be treated as if it had been contributed originally to a traditional Roth (check one—must be the opposite of type checked above) IRA. The amount of \$ 2,190.00 has been recharacterized; \$ 2,000.00 was the contribution amount and \$ 190.00 is the related earnings.

You should complete line 15(a) of your 2001 Form 1040 (or similar form) with \$ 2,190.00. This is the gross amount you recharacterized. You should also complete line 15(b), the taxable amount, with zero. Thus, you will not be required to include any amount in income for 2001 or 2002 because of your recharacterization.

You will want to review the instructions for the Form 8606 before you complete the Form 8606.

Accountholder _____ Date _____

Custodian _____ Date _____

Step #3. You Will Prepare Form 1099-R and Form 5498

1. You will prepare a 2001 Form 5498 to report the original contribution to the traditional IRA of \$2,000. It should be reported as shown below:

2. You will prepare a 2002 Form 1099-R to report the "deemed" distribution from the traditional IRA to the Roth IRA. It should be reported as fol-

lows. Box 1 is to be completed with the gross distribution amount (\$2,180) and box 2a is to be completed 0.00. The reason code in box 7 is to be an "R" for recharacterization.

3. You will prepare a 2002 Form 5498 to report the recharacterized contribution (plus earnings) to the Roth IRA of \$2,000. It should be reported as shown below.

Situation 2, Step #3(1)

CORRECTED (if checked)

TRUSTEE'S or ISSUER'S name, street address, city, state, and ZIP code		1 IRA contributions (other than amounts in boxes 2, 3, 4, and 6-11)	OMB No. 1545-0747
IRA Custodian		\$ 2000.00	2001 Form 5498
2 Rollover contributions		\$	
TRUSTEE'S or ISSUER'S federal identification no.	PARTICIPANT'S social security number	3 Roth conversion amount	4 Recharacterized contributions
42-12344567	999-88-6666	\$	\$
PARTICIPANT'S name		5 Fair market value of account	6 Life insurance cost included in box 1
Sara Roe		\$ 2125.00	\$
Street address (including apt. no.)		7 IRA SEP SIMPLE Roth IRA Ed IRA	This information is being furnished to the Internal Revenue Service.
City, state, and ZIP code		<input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	
Account number (optional)		8 SEP contributions	9 SIMPLE contributions
		\$	\$
		10 Roth IRA contributions	11 Ed IRA contributions
		\$	\$

Form 5498 (Keep for your records.) Department of the Treasury - Internal Revenue Service

Situation 2, Step #3(2)

VOID CORRECTED

PAYER'S name, street address, city, state, and ZIP code		1 Gross distribution	OMB No. 1545-0119
IRA Custodian		\$ 2190.00	2002 Form 1099-R
2a Taxable amount		\$ 0.00	
2b Taxable amount not determined <input type="checkbox"/>		Total distribution <input type="checkbox"/>	
PAYER'S Federal identification number	RECIPIENT'S identification number	3 Capital gain (included in box 2a)	4 Federal income tax withheld
42-12344567	999-88-6666	\$	\$ 0.00
RECIPIENT'S name		5 Employee contributions or insurance premiums	6 Net unrealized appreciation in employer's securities
Sara Roe		\$	\$
Street address (including apt. no.)		7 Distribution code	8 Other
City, state, and ZIP code		R <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	%
Account number (optional)		9a Your percentage of total distribution	9b Total employee contributions
		%	\$
		10 State tax withheld	11 State/Payer's state no.
		\$	
		12 State distribution	
		\$	
		13 Local tax withheld	14 Name of locality
		\$	
		15 Local distribution	
		\$	

Form 1099-R (Cat. No. 14436Q) Department of the Treasury - Internal Revenue Service

Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page

Situation 2, Step #3(3)

VOID CORRECTED

TRUSTEE'S or ISSUER'S name, street address, city, state, and ZIP code		1 IRA contributions (other than amounts in boxes 2-4 and 6-11)	OMB No. 1545-0747
Roth IRA Custodian		\$	2002 Form 5498
2 Rollover contributions		\$	
TRUSTEE'S or ISSUER'S federal identification no.	PARTICIPANT'S social security number	3 IRA Roth conversion amount	4 Recharacterized contributions
42-12344567	999-88-6666	\$	\$ 2190.00
PARTICIPANT'S name		5 Fair market value of account	6 Life insurance cost included in box 1
Sara Roe		\$ 2300.00	\$
Street address (including apt. no.)		7 IRA SEP SIMPLE Roth IRA Coverdell ESA	Copy A For Internal Revenue Service Center File with Form 1099. For Privacy Act and Paperwork Reduction Act Notice, see the 2002 General Instructions for Forms 1099, 1098, 5498, and W-2C.
City, state, and ZIP code		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	
Account number (optional)		8 SEP contributions	9 SIMPLE contributions
		\$	\$
		10 Roth IRA contributions	11 Coverdell ESA contributions
		\$	\$

Form 5498 (Cat. No. 50010C) Department of the Treasury - Internal Revenue Service

Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page

Recharacterizing, Continued from page 5

Situation #3. Recharacterizing a Conversion Contribution from a Traditional IRA to a Roth IRA

Francoise Bell converted \$30,000 from her traditional IRA to a Roth IRA on 1-15-01. The fair market value of this Roth IRA was \$33,000 as of 12-31-01. She is not married. Her accountant has told her she was not eligible to make the Roth IRA contribution for 2001, as her MAGI was \$103,000. There was income of \$3,900 related to her conversion contribution. In order to eliminate this excess contribution, she elects to recharacterize this conversion contribution on 3-1-02. The fair market value of this IRA as of 12-31-02 will be \$37,000.

Situation 3, Step #2

Step #1. Accountholder Must Instruct to Recharacterize

The individual must instruct you (the IRA custodian) to recharacterize. The individual is required to furnish you with very specific information. You can make his or her task easier by making available to your accountholder a form such as CWF's Notice of Recharacterization of IRA Contribution asset set forth on page 5 or a similar form.

Step #2. You (IRA Custodian) Must Furnish an Explanation to the Accountholder

You should furnish an explanation to your accountholder similar to the one below:

Step #3. You Will Prepare Form 1099-R and Form 5498

1. You will prepare a 2001 Form 5498 to report the original conversion contribution to the Roth IRA of \$30,000 as shown below:

2. You will prepare a 2002 Form 1099-R to report the "deemed" distribution from the Roth IRA to the traditional IRA. It should be reported as follows. Box 1 is to be completed with the gross distribution

amount (\$33,900) and box 2a is to be completed 0.00. The reason code in box 7 is to be an "R" for recharacterization.

3. Prepare a 2002 Form 5498 to report the recharacterized contribution (plus earnings) of \$33,900 to the traditional IRA. It should be reported as shown below:

Situation 3, Step #3(1)

		<input type="checkbox"/> CORRECTED (if checked)			
TRUSTEE'S or ISSUER'S name, street address, city, state, and ZIP code		1 IRA contributions (other than amounts in boxes 2, 3, 4, and 8-11)	OMB No. 1545-0747	<div style="font-size: 2em; font-weight: bold;">2001</div> <div style="font-weight: bold;">Form 5498</div>	
		2 Rollover contributions	4 Recharacterized contributions		
		\$	\$	<div style="font-weight: bold;">Copy B</div> <div style="font-weight: bold;">For Participant</div>	
TRUSTEE'S or ISSUER'S federal identification no.		3 Roth conversion amount	6 Life insurance cost included in box 1		
PARTICIPANT'S social security number		\$	\$	<div style="font-weight: bold;">This information is being furnished to the Internal Revenue Service.</div>	
PARTICIPANT'S name		5 Fair market value of account	7 IRA SEP SIMPLE Roth IRA Ed IRA		
Street address (including apt. no.)		\$	\$		
City, state, and ZIP code		8 SEP contributions	9 SIMPLE contributions		
Account number (optional)		\$	\$		
		10 Roth IRA contributions	11 Ed IRA contributions		
		\$	\$		

Form 5498 (Keep for your records.) Department of the Treasury - Internal Revenue Service

Situation 3, Step #3(2)

		<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED			
PAYER'S name, street address, city, state, and ZIP code		1 Gross distribution	OMB No. 1545-0119	<div style="font-size: 2em; font-weight: bold;">2002</div> <div style="font-weight: bold;">Form 1099-R</div>	
		2a Taxable amount	4 Federal income tax withheld		
		\$	\$	<div style="font-weight: bold;">Copy A</div> <div style="font-weight: bold;">For Internal Revenue Service Center</div>	
PAYER'S federal identification number		3 Capital gain (included in box 2a)	6 Net unrealized appreciation in employer's securities		
RECIPIENT'S identification number		\$	\$	<div style="font-weight: bold;">File with Form 1096.</div>	
RECIPIENT'S name		5 Employee contributions or insurance premiums	8 Other		
Street address (including apt. no.)		\$	\$	<div style="font-size: 0.8em;">For Privacy Act and Paperwork Reduction Act Notice, see the 2002 General Instructions for Forms 1099, 1098, 5498, and W-2G.</div>	
City, state, and ZIP code		7 Distribution code IRA/SEP/SIMPLE	9a Your percentage of total distribution %		
Account number (optional)		9b Total employee contributions %	10 State tax withheld	11 State/Payer's state no.	12 State distribution
		\$	\$	\$	\$
			13 Local tax withheld	14 Name of locality	15 Local distribution
			\$	\$	\$

Form 1099-R Cat. No. 144360 Department of the Treasury - Internal Revenue Service

Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page

Situation 3, Step #3(3)

		<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED			
TRUSTEE'S or ISSUER'S name, street address, city, state, and ZIP code		1 IRA contributions (other than amounts in boxes 2-4 and 8-11)	OMB No. 1545-0747	<div style="font-size: 2em; font-weight: bold;">2002</div> <div style="font-weight: bold;">Form 5498</div>	
		2 Rollover contributions	4 Recharacterized contributions		
		\$	\$	<div style="font-weight: bold;">Copy A</div> <div style="font-weight: bold;">For Internal Revenue Service Center</div>	
TRUSTEE'S or ISSUER'S federal identification no.		3 Roth IRA conversion amount	6 Life insurance cost included in box 1		
PARTICIPANT'S social security number		\$	\$	<div style="font-size: 0.8em;">For Privacy Act and Paperwork Reduction Act Notice, see the 2002 General Instructions for Forms 1099, 1098, 5498, and W-2G.</div>	
PARTICIPANT'S name		5 Fair market value of account	7 IRA SEP SIMPLE Roth IRA Coverdell ESA		
Street address (including apt. no.)		\$	\$		
City, state, and ZIP code		8 SEP contributions	9 SIMPLE contributions		
Account number (optional)		\$	\$		
		10 Roth IRA contributions	11 Coverdell ESA contributions		
		\$	\$		

Form 5498 Cat. No. 50010C Department of the Treasury - Internal Revenue Service

Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page

Special Explanation to Accountholder for an IRA Recharacterization for the 2001 Tax Year

(Name of Accountholder)

The purpose of this special explanation is to provide you with information about your recharacterization. You will need to properly report and explain your recharacterization when you file your 2001 federal income tax return. We have furnished to you a copy of the *IRA Recharacterization Form* which you executed. The IRS' instructions require you, as the IRA accountholder, to do two things if you have recharacterized an IRA contribution.

- First, you will need to complete the 2001 Form 8606 and file it with your 2001 Form 1040 (or similar form).
- Second, you need to attach an explanation indicating the original contribution amount, the amount which was recharacterized, and the amount of earnings which was recharacterized.

You have recharacterized your IRA contribution. Specifically, you instructed us on _____ to recharacterize a traditional Roth (check one) IRA contribution of \$ _____ which you had made on _____, for tax year 2001. For federal income tax purposes your contribution will now be treated as if it had been contributed originally to a traditional Roth (check one—must be the opposite of type checked above) IRA. The amount of \$ _____ has been recharacterized; \$ _____ was the contribution amount and \$ _____ is the related earnings.

You should complete line 15(a) of your 2001 Form 1040 (or similar form) with \$ _____. This is the gross amount you recharacterized. You should also complete line 15(b), the taxable amount, with zero. Thus, you will not be required to include any amount in income for 2001 or 2002 because of your recharacterization.

You will want to review the instructions for the Form 8606 before you complete the Form 8606.

Accountholder _____ Date _____

Custodian _____ Date _____

**Recharacterizing,
Continued from page 6**

Conclusion. You will certainly be receiving requests to recharacterize in calendar year 2002 a contribution which was made in calendar year 2001. Taxpayers and their accountants are beginning to understand the concept of recharacterizing a contribution as a correction tool. The taxpayer (or accountant) will need to complete the Form 8606 to report the recharacterization. The instructions for the Form 8606 state the taxpayer is to attach a statement explaining the recharacterization. This expla-

nation should indicate the total amount recharacterized, the original contribution, the earnings or loss and the amount that is now deductible, if applicable. The instructions also indicate that an IRA custodian has the duty to furnish this same information to the accountholder. CWF has recently revised its 2001 Form 56-TREX to incorporate the recent IRS changes and has also created the 2002 Form 56-TREX. Both are now available.

CWF Form 54-TR

Notice of Recharacterization of IRA Contribution

To: Current Custodian/Trustee
Name _____ Date: _____
Address: _____
City/State/Zip: _____
Phone: (____) _____

From: Depositor or Grantor
Name: _____ SSN _____
Address: _____ Date of Birth: _____
City/State/Zip: _____ Phone - Home: _____
Work: _____

I hereby instruct you that I wish to irrevocably recharacterize my previous contribution. The successor IRA will be with the current custodian/trustee or a successor custodian/trustee as indicated below. If I have indicated a successor custodian/trustee, then you are to issue a check for the amount indicated below to the successor custodian or trustee. I understand I must provide the following information to have my previous contribution recharacterized:

The Original Contribution Account Number: _____ Date of Contribution: _____ Amount: _____	The Recharacterized Contribution Account Number: _____ Date of Contribution: _____ Amount: _____
---	--

Type of Original Contribution (Check only one) <input type="checkbox"/> 1. Conversion/Rollover to Roth IRA <input type="checkbox"/> 2. Annual Contribution to a Roth IRA for _____ tax year <input type="checkbox"/> 3. Annual contribution to a traditional IRA for _____ tax year	Type of Recharacterized Contribution 1. Rollover to a traditional IRA 2. Annual contribution to a traditional IRA for the same tax year 3. Annual Contribution to a Roth IRA for the same tax year
---	--

Instruction and Amount to Recharacterize

I elect to recharacterize \$ _____
Which is all or a portion of my original contribution.
It is adjusted by:
a. Related Earnings (losses) _____
b. Interest Penalty Fee _____
c. Administrative Fee _____
d. Other _____
e. Recharacterized Net Amount _____

I instruct you to transfer the recharacterized net amount to the successor custodian/trustee. I want this recharacterized net amount to come from the following assets held within my referenced IRA and paid in the instructed manner. I understand that there may be various fees associated with liquidating and/or transferring such assets in kind. These fees are set forth above. I authorize you to deduct such fees from the IRA.

<input type="checkbox"/> Liquidate all of my accounts and transfer the cash proceeds by sending a check to the successor custodian/trustee;
<input type="checkbox"/> Liquidate the accounts I specify below and transfer the cash proceeds by sending a check to the successor custodian/trustee: _____
<input type="checkbox"/> Transfer all such assets "in kind" to the successor custodian/trustee:
<input type="checkbox"/> Transfer "in kind" the assets I specify below to the successor custodian/trustee: _____

I acknowledge that you have instructed me to consult with my legal or tax advisor because of the complexity and importance of this matter. This recharacterization is being made on or before the due date (including extensions) for filing my individual Federal income tax return for the taxable year for which the contribution was made. I expressly assume all responsibility for this recharacterization of IRA funds. I realize that my election to recharacterize my contribution is irrevocable.

Signature of Depositor or Grantor: _____ **Date:** _____

Acknowledgment of Current IRA Custodian/Trustee:
We acknowledge receiving your recharacterization instruction. We will report the original contribution on Form 5498, showing the character of the contribution (annual, conversion, etc.) and will report the distribution for recharacterization on Form 1099-R per the current IRS instructions. If your recharacterized contribution has been made into an IRA that you maintain with us, then we will also report the aforementioned contribution as a recharacterized contribution on a Form 5498 (Box 4).

Signature of Current Custodian/Trustee: _____ **Date:** _____

Acceptance by Successor IRA Custodian/Trustee:
We, the successor custodian/trustee, agree to report this recharacterized contribution as identified above as a recharacterized contribution on Form 5498 and agree to accept this contribution as if it had originally been made to us rather than the previous trustee/custodian.

Successor Custodian/Trustee: _____ Phone: _____
Address: _____
City/State/Zip: _____

Signature of Successor Custodian/Trustee: _____ **Date:** _____

IRA #54-TR (3/02) White — Original Custodian/Trustee Yellow — Successor Custodian/Trustee Pink — Depositor/Grantor © 2002 Collin W. Fritz & Associates, Ltd.

Form 8606 as it Relates to Form 1099-R

Because box 1 and box 2a of the Form 1099-R are required to be completed with the same amount when a distribution from an IRA is involved, the question arises, "How does the IRS know what portion of the listed amount is taxable, if any?" As the IRS perceives this situation, the entire amount distributed from an IRA is believed to be taxable, unless the individual can prove otherwise. The way to do this is to complete Form 8606 and file it with the Form 1040. On Form 8606, the individual lists the portion of the distributions which are attributable to nondeductible contributions. As you are aware, nondeductible contributions are contributions which an individual is not able to deduct from his income on the Form 1040. The individual attaches the Form 8606 to his or her Form 1040. In this way, the IRS is informed of the amount of nondeductible contributions which are included in boxes 1 and 2a of the 1099-R. Because nondeductible contributions have already been taxed, the individual is not again required to pay tax upon the distribution of these funds.

If an individual neglects to complete Form 8606 for a year in which he or she has received a nondeductible distribution, he or she will have no proof that the amount is indeed non-taxable, and the IRS will consider it a taxable amount.

What Effect do the Revised RMD Rules Have on Substantially Equal Periodic Payment Schedules?

In Notice 89-25, the IRS provided three safe harbors to be used to calculate a payment schedule which would qualify as a substantially equal periodic payment schedule within the meaning of Code section 72(t). That is, the 10% additional tax as imposed by Code section 72(t) will not be assessed if the distribution is made pursuant to a substantially equal periodic payment (SEPP) schedule.

The three safe harbor methods were: (1) the amortization method; (2) an annuity factor method, and (3) the Code section 401(a)(9) method. There are various penalty taxes which will be assessed if an IRA account holder modifies the payment schedule before he or she is permitted.

We recently asked an IRS representative if, for purposes of the SEPP calculation for 2002, the 2001/2002 RMD method was required to be used rather than the 1987 RMD method. The IRS representative said the new 2001/2002 method was to be used.

With respect to new SEPP schedules being established in 2002, we would agree

that to qualify as a safe harbor, the 2001/2002 RMD method would need to be used.

However, with respect to SEPP schedules which were established in prior years, we are not so sure. We do not think the IRS has specifically addressed this question. Obviously, there are IRA accountholders who have established a SEPP and who used the 1987 RMD method which allowed the use of a single life-expectancy factor. Does continuing this method mean that the 1987 RMD method must continue to be used, or must there be a switch to the 2001/2002 RMD method? In many cases, the IRA accountholder would have made the annual calculations using his or her single life-expectancy factor. If the 2001/2002 method must be used, then the life-expectancy factor will become substantially larger, because the MDIB table is a joint table, and, therefore, the annual payment will be much smaller than under the original method.

Note that the IRS does not even have an MDIB table for accountholders less than age 70. What table is then to be used? It would seem reasonable that the accountholder would be able to continue the RMD schedule as originally established and not have to use the 2001/2002 method of calculation.

The law is not settled or clear on this issue. Your accountholders who have elected to use the RMD method should consult with their own tax advisors to determine whether, to avoid the recapture tax, they need

to use the 2001/2002 rules to calculate their distribution amount for 2002, rather than the 1987 RMD rules as in effect when the schedule was first established. You may wish to make such accountholders aware of this issue. Hopefully, the IRS will issue additional guidance on this situation.

From your financial institution's perspective, the question becomes, will you be permitted to use a reason code 2 for Form 1099-R reporting purposes if the account holder does not switch to the new 2001/2002 method?

It should be remembered that a distribution schedule can qualify as "substantially equal" even though the schedule is not determined by using one of the safe harbor methods. The IRS would have a hard time arguing that a distribution which used to be a "safe harbor" is no longer a safe harbor because the calculation method has been changed by the IRS.

IRS Form 8606

Form **8606**

Nondeductible IRAs and Coverdell ESAs

OMB No. 1545-1007

2001

Attachment
Sequence No. **48**

Department of the Treasury
Internal Revenue Service (99)

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

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		
<p>In 2001, did you take a distribution from traditional, SEP, or SIMPLE IRAs or make a Roth IRA conversion?</p> <p>No → Enter the amount from line 3 on line 14. Do not complete the rest of Part I.</p> <p>Yes → Go to line 4.</p>				
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).

IRS Form 8606

Form 8606 (2001)

Page **2**

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: 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).

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

