Resolving IRA Excesses

Excess Contribution
Correction

Before TRDD+	**After TRDD+**
⌄	⌄
Remove or recharacterize with the net income attributable.	Redesignate or remove excess amount.

Unwanted Contribution
Correction

Before TRDD+	**After TRDD+**
⌄	⌄
Remove or recharacterize with the net income attributable.	Cannot remove. Leave in IRA as annual contribution.

If IRA owners file their taxes by their regular or extended deadlines, they are granted automatic six month extensions for removals of excess to October 15.

Recharacterize – A recharacterization is a reportable transfer of all or part of a contribution, plus earnings/loss, from a Traditional IRA to a Roth IRA, or from a Roth IRA to a Traditional IRA. An individual may be able to correct an excess using recharacterization if the excess is due to the individual being ineligible for the specific type of IRA to which they contributed, but they are eligible for the other type IRA.

Net income/loss attributable – Net income/loss attributable is the amount of earnings specific to an excess contribution amount being removed, or a contribution being recharacterized.

Redesignate – To redesignate means to apply an excess contribution to a later tax year. The individual is still responsible for paying the six percent penalty, but leaves the contribution and earnings/loss in the IRA.

Remove Before the Deadline

The IRA Owner

1. IRA owner avoids 6% IRS penalty
2. Contribution is not claimed as deductible or basis
3. NIA taxable for year in which contribution was made
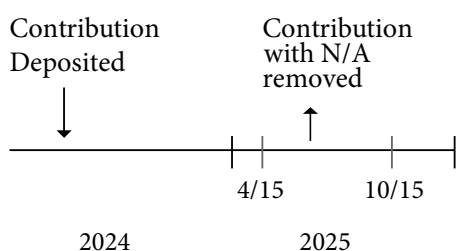4. 10% penalty on NIA, unless exception applies

The Financial Organization

1. Remove excess contribution with NIA
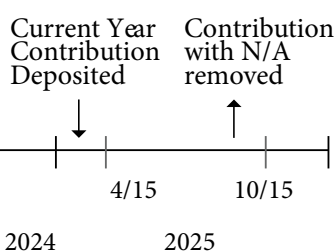2. Original contribution reported on Form 5498
3. Form 1099-R reporting required

   Code P – Contribute in year, remove subsequent year

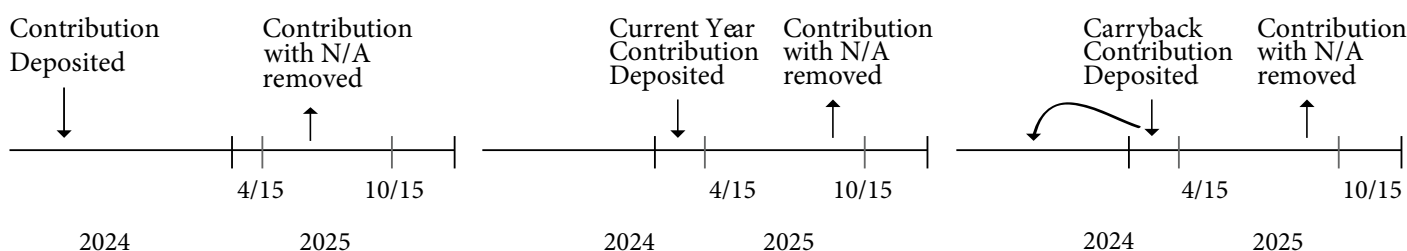   Code 8 – Contribute and remove same year

Code P

Contribution Deposited ↓ ... Contribution with N/A removed ↑

4/15 — 10/15

2024 — 2025

Code 8

Current Year Contribution Deposited ↓ ... Contribution with N/A removed ↑

4/15 — 10/15

2024 — 2025

Code 8

Carryback Contribution Deposited ↓ ... Contribution with N/A removed ↑

4/15 — 10/15

2024 — 2025

Recharacterize

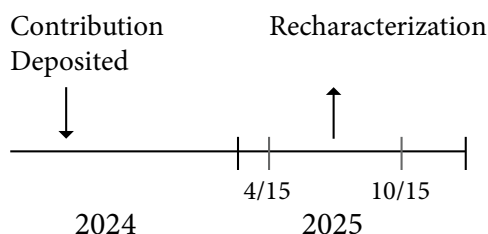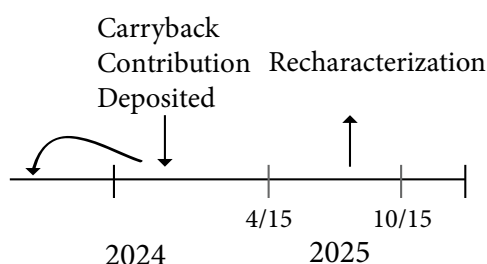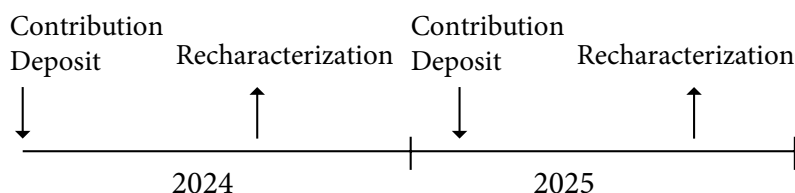| The IRA Owner	The Financial Organization

1. The IRA owner irrevocably elects to treat the contribution as having been made to the second IRA rather than the first
2. The IRA owner attaches a statement when he or she files his or her taxes confirming the recharacterization
	1. The financial organization directly transfers the contribution amount, plus any net income/loss attributable, from the first IRA to the second IRA
	2. The financial organization reports the distribution from the first IRA
	   Code R – Contribute for year, recharacterize subsequent year.
	   Code N – Contribute for and recharacterize in same year.
	3. The financial organization reports the contribution into the second IRA

Code R

Contribution Deposited → Recharacterization ↑

4/15	10/15
2024	2025

Code R

Carryback Contribution Deposited → Recharacterization ↑

4/15	10/15
2024	2025

Code N

Contribution Deposit ↓ Recharacterization ↑ Contribution Deposit ↓ Recharacterization ↑

2024 | 2025

Redesignate

The IRA Owner	The Financial Organization
1. IRA owner pays 6% IRS penalty – Form 5329 2. IRA owner redesignates for subsequent year – Form 1040 or 8606	1. Leave the excess contribution in the IRA 2. Original contribution reported on Form 5498 3. No additional reporting

Remove an Excess – After the Deadline

The IRA Owner	The Financial Organization
1. IRA owner pays 6% IRS penalty – Form 5329 2. Taxable if total IRA contribution exceeds individual limit (Traditional IRA only) 3. 10% penalty unless exception applies (Traditional IRA only)	1. Remove excess contribution 2. Original contribution reported on Form 5498 3. Form 1099-R reporting required

Earnings Calculation Worksheet

Note: The earnings calculation must be based on all investments held in the IRA.

Line 1:	Amount to be withdrawn as excess contribution or recharacterization.	$
Line 2:	Current fair market value (FMV) of the IRA (i.e., FMV prior to the withdrawal of the excess/recharacterized contribution).	$
Line 3	Fair market value (FMV) of the IRA immediately prior to the deposit of the excess/recharacterized contribution. Use the most recent FMV prior to the deposit of the excess/recharacterized contribution that is obtainable.	$
Line 4:	Total amount distributed from the IRA (including transfers out) since the valuation date used to determine Line 3. **Note:** Distributions include, but are not limited to: transfers, rollovers and recharacterizations. Do not include the distribution of the excess/recharacterized contribution.	$
Line 5:	Total amount contributed to the IRA (including the excess/recharacterized contribution) since the valuation date used to determine Line 3.	$
Line 6:	Amount of investment penalty (if any) that will be assessed on the withdrawal of the excess/recharacterized contribution.	$
Line 7:	Add Line 2 and Line 4, then subtract Line 6.	$
Line 8:	Add Line 3 and Line 5.	$
Line 9:	Subtract Line 8 from Line 7.	$
Line 10:	Divide Line 9 by Line 8.	
Line 11:	Multiply Line 10 by Line 1. This is the net income attributable to the contribution. **Note:** A negative amount represents a loss.	$
Line 12:	Add Line 1 and Line 11. This is the total amount to be withdrawn to correct the excess contribution or moved as part of the recharacterization.	$