

ROTH IRA CONTRIBUTIONS AND YOUR TAX RETURN

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Have you contributed to a Roth IRA for 2020? If you have not, you still have some time. The deadline for making a prior year contribution is the tax-filing deadline, not including any extensions you might have. For 2020, that deadline is April 15, 2021.

If you have made a Roth IRA contribution for 2020, or are still planning to make one, you may be wondering how these contributions will be handled on your federal income tax return. The answer may surprise you. Roth IRA contributions are NOT reported on your tax return. You can spend hours looking at Form 1040 and its instructions as well as all the other schedules and forms that go along with it and you will not find a place to report Roth contributions on the tax return. There is a place to report deductible contributions to Traditional IRAs and a place to report nondeductible Traditional IRA contributions as well. Conversions from Traditional IRAs to Roth IRA also need to be reported on the tax return. But there is no place for reporting Roth IRA contributions.

While you do not need to report Roth IRA contributions on your return, it is important to understand that the IRA custodian will be reporting these contributions to the IRS on Form 5498. You will get a copy of this form for your own information, but you do not need to file it with your federal income tax return.

Even though you do not need to report your Roth IRA contributions on your tax return, you should still keep track of them. This information is important if you take distributions. Your Roth IRA contributions are always available to you both tax and penalty free. These funds are considered to be the first funds distributed from your Roth IRA. Once your contributions are all gone, then converted funds are

distributed and then earnings. If you take a distribution of converted funds from your Roth IRA, there may be penalties that apply. A distribution of Roth IRA earnings can be both taxable and subject to penalty if a Roth distribution is not qualified.

By tracking your Roth IRA contributions, you can limit your Roth distributions to the amount of your tax-year contributions and thereby ensure that they are always both tax and penalty-free. Of course, the best move is to avoid taking any distributions at all from your Roth IRA until you reach retirement age. If you wait and take qualified distributions, then not just your contributions but everything else in your Roth IRA, including years of earnings, will be tax-and penalty-free. And that, after all, is the goal of saving with a Roth IRA.

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