

# IRA Excess IRA Contributions

## What's an excess IRA contribution?

"Excess contribution" means you put more money into your IRAs in one year than the IRS allows.

## Why might an excess contribution occur?

**Your income is too high.** Your modified adjusted gross income (MAGI) may limit the amount you can contribute to a Roth IRA. If your MAGI is high enough, you may not be eligible to contribute to a Roth IRA at all.

**You don't have enough earned income.** The amount of your contribution can't exceed the amount of money you earned during the year. One exception applies: If you're married filing jointly, you can use your spouse's income to help qualify to contribute to an IRA. But the total contribution for both spouses can't exceed either your joint taxable income or double the annual IRA limit, whichever is less.

**You contributed more than the IRA limit.** Remember your annual contribution limit applies across all your traditional and Roth IRAs, not separately to each IRA.

**You made an ineligible rollover contribution to an IRA.** This type of excess contribution can occur for many reasons, but the methods for handling ineligible rollover contributions are the same as those for correcting other types of excess contributions.

For more detailed information, including instructions on how to calculate your allowable contribution, visit [irs.gov](https://www.irs.gov) and search for Publication 590-A, or consult a tax professional.

## What are my options?

- **Remove the excess contribution before your tax filing deadline (including extensions).** In this scenario, your contribution isn't subject to taxes or penalties, but your earnings will be subject to ordinary income tax. If you filed your return in a timely manner without withdrawing the excess contributions, you can still remove the excess no later than six months after the due date of your return, excluding extensions (generally, October 15). You may, however, be required to file an amended tax return.
- **Remove the excess contribution after your tax filing deadline (including extensions).** In this scenario, only the contribution is removed, and any earnings remain in the account. The excess contribution is subject to a 6% penalty tax each year the excess remains in the IRA past the deadline, determined as of year-end. This means you'll be subject to at least one 6% penalty for failing to remove the excess contribution before the deadline. You can be charged the penalty tax on any excess amount for up to six years, beginning with the year when you file the federal income tax return for the year the error occurred. Consult a tax advisor to discuss how this applies to you. If you've contributed to both a Roth IRA and a traditional IRA in the same year and your total contribution exceeded the allowable limit, IRS regulations require you to remove the excess contribution from your Roth IRA first.
- **Carry the excess contribution forward.** You can carry forward the excess by undercontributing to your IRAs in a later year or years—that is, by reducing subsequent years' eligible contributions by the amount of the excess. But because you're not withdrawing the excess contribution by the deadline, you'll be subject to a 6% penalty for the year for which the contribution was made and each year thereafter until the excess is eliminated. You can be charged the penalty tax on any excess amount for up to six years, beginning with the year when you file the federal income tax return for the year the error occurred. Consult a tax advisor to discuss how this applies to you. You don't need to notify Vanguard if you select

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this option because you'll be responsible for reporting the information to the IRS. Vanguard won't change any of your account records or report any additional information to the IRS.

For additional information and examples, read IRS Publication 590-A, Contribution to IRAs.

## How are the taxes reported to me?

An excess contribution return (principal and earnings) is reported on IRS Form 1099-R.

- The removal of the excess doesn't affect Form 5498, which will report the amount of the original contribution. Form 5329 is used to report the penalty on the earnings, if any.

For more information about excess removal rules and IRS reporting requirements, refer to IRS Publication 590-A or the instructions in IRS Form 8606, available at [irs.gov](https://www.irs.gov).

## How is the excess withdrawn from my brokerage IRA?

- **Important: If you're removing excess contributions from your brokerage IRA via ACH to your bank or by check, the contributed amount plus earnings MUST first be available in your settlement vehicle.** If your settlement vehicle balance is insufficient to cover the total amount to be removed, your request could be delayed.
- If you're moving securities in kind from your brokerage IRA, withholding on earnings will be paid from your settlement vehicle.

## How are earnings/losses calculated on an excess contribution?

Vanguard has adopted the calculation method set forth in IRS Notice 2000-39 and Regulation section 1.408-11. The calculations are based on ALL assets in your IRA plan, not just the fund originally contributed to.

Additional information and examples can be found at [irs.gov](https://www.irs.gov) under IRS Publication 590-A, Contributions to an IRA. For a more detailed explanation of Publication 590-A and examples of how to calculate your own earnings or loss, please visit the IRS website. A chart to help with earnings/loss calculation can be found on that website under "Determining the Amount of Net Income Due to an IRA Contribution and Total Amount To Be Withdrawn From the IRA."

## How do I request an excess contribution removal?

Follow these steps to remove excess contributions from a Vanguard IRA® online:

- Log in to your account at [vanguard.com](https://vanguard.com); select the **documents icon** in the top right navigation menu, then select **forms & applications**.
- Select **Add or remove money, trade within your account**, then **Remove excess distributions or contributions, convert from a traditional to a Roth IRA, or recharacterize contributions**.
- Select **Remove excess contributions, convert assets, or recharacterize contributions** to complete the process online.
- Once in the flow, you'll identify that you want to **remove a contribution from the account as an excess contribution**.

You may also call us at **877-662-7447**.

This fact sheet is provided for informational purposes only; it isn't intended to provide tax advice. Before you decide to request an excess removal, consult a tax advisor.

All excess removals are tax-reportable and could be complicated. Review this strategy with a qualified tax advisor to help ensure it's reported properly.

All investing is subject to risk, including the possible loss of the money you invest.