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10 TIPS ON EARLY RETIREMENT DISTRIBUTIONS

By Victor Sy, CPA

1. Payments you receive from your Individual Retirement Arrangement **before you reach age 59 ½** are considered **early or premature distributions**.
2. Early distributions are subject to an additional **10% penalty**.
3. Distributions you **roll over** to another IRA or qualified retirement plan are **not** subject to the additional 10% tax. You must complete the rollover within 60 days after the day you received the distribution.
4. The amount you roll over is generally taxed when the new plan makes a distribution to you or your beneficiary.
5. If you withdraw funds before the age of 59 ½, you can avoid the dreaded early withdrawal penalties by taking **substantially equal payments** of at least once a year over your life, your joint lives, or those of your beneficiaries.
6. If you made **nondeductible contributions** to an IRA and later take early distributions from that same IRA, the portion of the distribution attributable to those contributions is **not** taxed.
7. If you received an early distribution from a **Roth IRA**, the distribution attributable to contributions is not taxed.
8. If you received a distribution from any **other qualified retirement plan**, generally the entire distribution is taxable unless you made after-tax employee contributions to the plan.
9. You may withdraw IRA funds for **qualified education** expenses without paying the 10% penalty for early withdrawal.
10. You may also withdraw up to **\$10,000** or IRA funds for **first-time homebuyers** without paying the 10% penalty. In both cases, you still have to pay the regular income tax. TIP: The term "first-time homebuyer" does not mean that you never owned a home before; it merely means that you did not own a home during the past two years. This is a very liberal interpretation, a good one. ☺