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10 FACTS ON EARLY DISTRIBUTIONS FROM RETIREMENT PLAN

By Victor Sy, CPA

Tough times may necessitate dipping into your retirement funds before retirement. Look at the tax impact of such a move. You may be shocked to find out what you are left with - as little as half or two-thirds of what you withdraw. Here are ten facts about early distributions.

1. Payments you receive from your IRA (Individual Retirement Arrangement) before you reach age 59 ½ are generally considered **early or premature distributions**.
2. Early distributions are **reported** to the IRS.
3. You have to pay regular federal and state **income taxes** on your gross distribution.
4. You also have to pay an additional **10 percent penalty** for that early distribution.
5. Add your income taxes and penalties and you could end up with only half to two-thirds in net funds, depending on your tax brackets. Realizing this, you then have to increase your distribution - leading to more taxes and penalties.
6. Distributions you **roll over** to another IRA or qualified retirement plan are not subject to the additional 10% penalty. You must complete the rollover within 60 days after the day you received the distribution.
7. The amount you rollover is generally taxed when the new plan makes a distribution to you or your beneficiary.
8. If you made **nondeductible** contributions to an IRA and later take early distributions from your IRA, the portion of the distribution attributable to those nondeductible contributions is not taxed.
9. If you received an early distribution from a **Roth IRA**, the distribution attributable to your prior contributions is not taxed.
10. 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.

TIP: There are several **exceptions** to the additional 10 percent early distribution tax, such as when the distributions are used for the purchase of a first home, for certain medical or educational expenses, or if you are disabled.