

From the desk of
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Early Withdrawals from Retirement Plans

Many people find it necessary to take out money early from their IRA or retirement plan.

Doing so can trigger an additional tax on top of income tax taxpayers may have to pay.

Here are a few key points to know about taking an early distribution:

Early Withdrawals.

An early withdrawal normally is taking cash or other assets out of a retirement plan before the taxpayer is 59½ years old.

Additional Tax

If an early withdrawal was made from a plan during the year income taxes are due for the distribution. If the distribution was an early withdrawal an additional 10 percent tax is also due.

Nontaxable Withdrawals

The additional 10 percent tax does not apply to nontaxable withdrawals. These include withdrawals of contributions that taxpayers paid tax on before they put them into the plan.

A rollover is a form of nontaxable withdrawal. A rollover occurs when cash or other assets are transferred from one plan to another.

One has 60 days to complete a rollover to qualify for a tax-free transfer.

Exceptions

There are many exceptions to the additional 10 percent tax.

The rules for retirement plans and IRA's are similar, but there are some differences as listed below.

The distribution will NOT be subject to the 10% additional early distribution tax in the following circumstances:	Exception to 10% Additional Tax		
	Qualified Plans (401(k), etc.)	IRA, SEP, SIMPLE IRA* and SARSEP Plans	Internal Revenue Code Section(s)
Age			
after participant/IRA owner reaches age 59½	yes	yes	72(t)(2)(A)(i)
Automatic Enrollment			
permissive withdrawals from a plan with auto enrollment features	yes	yes for SIMPLE IRAs and SARSEPs	414(w)(1)(B)
Corrective Distributions			
corrective distributions (and associated earnings) of excess contributions, excess aggregate contributions and excess deferrals, made timely	yes	n/a	401(k)(8)(D), 401(m)(7)(A), 402(g)(2)(C)
Death			
after death of the participant/IRA owner	yes	yes	72(t)(2)(A)(ii)
Disability			
total and permanent disability of the participant/IRA owner	yes	yes	72(t)(2)(A)(iii)
Domestic Relations			
to an alternate payee under a Qualified Domestic Relations Order	yes	n/a	72(t)(2)(C)
Education			
qualified higher education expenses	no	yes	72(t)(2)(E)
Equal Payments			
series of substantially equal payments	yes	yes	72(t)(2)(A)(iv)
ESOP			

dividend pass through from an ESOP	yes	n/a	72(t)(2)(A)(vi)
Homebuyers			
qualified first-time homebuyers, up to \$10,000	no	yes	72(t)(2)(F)
Levy			
because of an IRS levy of the plan	yes	yes	72(t)(2)(A)(vii)
Medical			
amount of unreimbursed medical expenses (>7.5% AGI; after 2012, 10% if under age 65)	yes	yes	72(t)(2)(B)
health insurance premiums paid while unemployed	no	yes	72(t)(2)(D)
Military			
certain distributions to qualified military reservists called to active duty	yes	yes	72(t)(2)(G)
Returned IRA Contributions			
if withdrawn by extended due date of return	n/a	yes	408(d)(4)
earnings on these returned contributions	n/a	no	408(d)(4)
Rollovers			
in-plan Roth rollovers or eligible distributions contributed to another retirement plan or IRA within 60 days (also see FAQs: Waivers of the 60-Day Rollover Requirement)	yes	yes	402(c), 402A(d)(3), 403(a)(4), 403(b)(8), 408(d)(3), 408A(d)(3)
Separation from Service			
the employee separates from service during or after the year the employee reaches age 55 (age 50 for public safety employees of a	yes	no	72(t)(2)(A)(v), 72(t)(10)

state, or political subdivision of a state, in a governmental defined benefit plan)**			
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Nonqualified 457(b) plans

Governmental 457(b) distributions are not subject to the 10% additional tax except for distributions attributable to rollovers from another type of plan or IRA.

*SIMPLE IRA distributions incur a 25% additional tax instead of 10% if made within the first 2 years of participation

****Qualified public safety employees**

Effective for distributions after December 31, 2015, the exception for public safety employees who are age 50 or over is expanded to include specified federal law enforcement officers, customs and border protection officers, federal firefighters and air traffic controllers.

The restriction that only defined benefit plans qualify for the exemption is eliminated. Thus, an exemption is allowed for distributions from defined contribution plans or other types of governmental plans.