Taking an early distribution from your retirement plan can be costly

You may have needed to take an early distribution from your retirement plan. There can be a significant tax impact to tapping your retirement fund, here are some facts about early distributions to keep in mind.

1. Payments you receive from your Individual Retirement Arrangement before you reach age 59 ½ are generally considered early or premature distributions.
2. Early distributions are usually subject to an additional 10 percent tax.
3. Early distributions must also be reported to the IRS.
4. Distributions you rollover to another IRA or qualified retirement plan are not subject to the additional 10 percent tax. You must complete the rollover within 60 days after the day you received the distribution.
5. The amount you roll over is generally taxed when the new plan makes a distribution to you or your beneficiary.
6. 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.
7. If you received an early distribution from a Roth IRA, the distribution attributable to your prior 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. 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. (source IRS.gov)

For more information on early distributions please feel free to call or e-mail me with any questions.

Thank You,
Michael Gleason

Publication 575, Pension and Annuity Income
Publication 590, Individual Retirement Arrangements (IRAs).