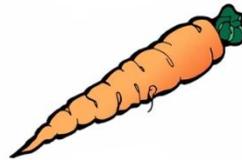




## Taking an Early Distribution from an IRA (Before age 59 ½)

### Taking an IRA Distribution before age 59½

Congress created the IRA to be used as a tax preferred savings and investing plan to help people prepare for their future. To encourage individuals to financially prepare for retirement Congress employed a “carrot and stick” approach.



**The carrot:** Income tax deferral on the earnings made inside the IRA account. By deferring income taxes on the earnings more dollars remain inside the IRA to compound. The increased speed of the compounding is a very powerful tool.



**The stick:** A penalty is charged to discourage individuals from raiding their retirement piggy bank.

We all understand the “carrot”; this report is about the “stick” and a few ways the IRS allows you to avoid it.

First; the basic facts:

What is an early distribution: Generally a distribution taken from your IRA before the age of 59 ½.

How much is the penalty: The owner of a Traditional IRA account will be required to pay income tax on the amount of the withdrawal plus a 10% of the amount distributed. (Referred to as the 10% early distribution penalty)

**There are cases when you may take an Early Distribution from an IRA and avoid the 10% tax penalty**

Although The IRA Club does *not* recommend that you take an early withdrawal from a tax preferred retirement savings plan, there are times when a withdrawal becomes necessary. The IRS lists a few specific events that may cause an early distribution from your IRA that will not be penalized by the 10% tax penalty. Some of the events listed below have restrictions on the amount or when the distribution may be taken. **The IRA Club** can guide you through the information you would need to perform the distribution in accordance with IRS Code. Of course the best way to avoid the 10% penalty is to wait till you have reached age 59½.

**Distributions that are (in part or in whole) free from the 10% penalty on early distributions at any age:**

Death (IRA account owner)	Active Reservists
Disability (total)	Annuitizing your Future Distributions
Health Insurances	[using rule 72(t)]
(If you are unemployed)	Costs of Qualified Higher Education
Medical Costs	First Time Home Buyer (up to \$10,000)
(Must exceed 7.5% of AGI)	QDRO Settlements (Divorce)
Return of excess contributions	To pay an IRS Tax Levy
Must withdraw before tax due date	
Does not include earnings on the Excess Contribution	

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The IRA Club