



# ED SLOTT'S IRA ADVISOR

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September 2017

## TAX & ESTATE PLANNING FOR YOUR RETIREMENT SAVINGS

### The 10% Early Distribution Penalty Exceptions *What You Need to Know*

#### Overview of Early Distributions

It is *not* a good idea to take funds from a retirement account before retirement. However, the reality is that there are times when funds are desperately needed, and the only place with available assets is a retirement account.

There are some drawbacks to raiding a retirement account. An early distribution reduces the amount of funds available later for retirement. The ultimate account balance is reduced not only by the amount withdrawn but also by the amount those funds would have earned. The distribution is generally added to earned income unless the funds are after-tax contributions. The extra income can put a client into a higher tax bracket and affect all other items on the tax return that are income based.

In addition to the taxes owed, an individual under the age of 59½ at the time of the distribution will be subject to the 10% early distribution

penalty assessed on the taxable amount withdrawn, *unless an exception to the penalty applies*. Between the income tax and the 10% penalty, a substantial portion of the distribution could be lost to taxes. *Yes*, there are exceptions to the 10% penalty, but that list is very specific.

When Congress wrote the retirement account laws, they recognized that sometimes individuals may have to raid their accounts early and wrote several exceptions to the penalty in the Tax Code. The trick is to use the right exception, from the right account, and to follow all the rules for that particular exception. Some exceptions have a broad definition; some are very, very narrow. The final piece of the puzzle is the tax reporting in order to avoid those unpleasant follow-up letters from IRS.

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#### General Rules

The 10% early distribution penalty will apply to any taxable distribution taken from an IRA prior to the actual date

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If You Were a Retiree, Which Road Would You Choose?

Join us at *Instant IRA Success* in Orlando, FL on Feb. 22-23, 2018. \$500 OFF with code EARLYBIRD!



SEE PAGE 8 TO LEARN MORE.