

**Question:** Is it true that I can take money out of my retirement plan before age 59½ and avoid the 10% early withdrawal penalty assessed by the IRS?

**Answer:** It depends. Normally, when you take money out of a qualified retirement plan, your IRA, SEPs, SIMPLE plans and 403(b) plans before age 59½, you are subject to a 10% early withdrawal penalty by the IRS. There are, however, a number of possible exceptions to this rule.

**Exception #1:** You take an early distribution for deductible medical expenses.

**Exception #2:** You take an early distribution pursuant to a divorce decree.

**Exception #3:** You take an early distribution from a qualified employer plan such as a 403(b) and are separated from service after age 55.

In certain situations, early distributions from IRAs to pay for health insurance premiums for unemployed persons may also avoid the IRS 10% early withdrawal penalty. Additionally, a few new exceptions have been enacted for qualified reservists and public safety officials.

If the early withdrawal you wish to take is from an IRA, a few more exceptions exist. For example, if you take money out of an IRA to pay for qualifying higher education expenses for yourself, a spouse, a child, or a grandchild, the 10% penalty should not be assessed. Additionally, if you're a first time home buyer, there is a lifetime exemption of \$10,000 from this 10% penalty tax.

As you can see, this is a complicated area so you would be advised to check with your tax preparer or accountant. Be sure to ask them about IRC Section 72 (t).

**Bill's Bottom-line:** Although an early withdrawal may not be subject to the 10% IRS penalty, the distribution will be included as ordinary income for tax purposes on your tax return.



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