

Early Distributions From Retirement Plans

Payments that you receive from your IRA or qualified retirement plan before you reach age 59½ are normally called ‘early’ or ‘premature’ distributions. These funds are subject to an additional 10 percent tax and must be reported to the IRS.

There are a number of exceptions to the age 59½ rule if you make an early withdrawal. Some exceptions apply only to IRAs, some only to qualified retirement plans, and some to both.

In addition to the 10 percent tax on early distributions, you generally must include the distribution in your income. If you received a distribution from an IRA, other than a Roth IRA, to which you made any nondeductible contributions, the portion of the distribution attributable to those contributions is not taxed. If you received a qualified distribution from a Roth IRA, none of the distribution is taxed. If you received a distribution from any other qualified retirement plan, the portion of the distribution attributable to your cost, not including pre-tax contributions, is not taxed.

A ‘rollover’ is a way to avoid paying tax on early distributions. Generally, a rollover is a tax-free transfer of cash or other assets from an IRA or qualified retirement plan to another eligible retirement plan. An eligible retirement plan is a traditional IRA, a qualified retirement plan, or a qualified annuity plan. You must complete the rollover within 60 days after the day you received the distribution. The amount you roll over is generally taxed when the new plan pays you or your beneficiary.

For more information see IRS Publication 560, Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans), Publication 575, Pension and Annuity Income, or Publication 590, Individual Retirement Arrangements (IRAs),