

M&Y INTERNATIONAL FINANCIAL SERVICES NEWSLETTER



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Early Retirement Distributions and Your Taxes

Taxpayers may sometimes find themselves in situations when they need to withdraw money from their retirement plan early. What they may not realize is that taking money out early from your retirement plan may trigger an additional tax. Here are 10 things taxpayers should know about early withdrawals from retirement plans.

"The rules for retirement plans can be complex. If you need assistance, don't hesitate to call"

days to complete a rollover to make it tax-free. Generally, a rollover is a distribution to you of cash or other assets from one retirement plan that you contribute to another retirement plan. The amount you roll over is generally taxed when the new plan makes a distribution to you or your beneficiary.

5. 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.

6. If you received an early distribution from a Roth IRA, the distribution attributable to your prior contributions is not taxed.

7. 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.

8. 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 (up to \$10,000), for certain medical or educational expenses, or if you are totally and permanently disabled. Furthermore, some of the exceptions for retirement plans are different from the rules for IRAs. Please call for details.

9. If you make an early withdrawal, you may need to file Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts, with your federal tax return.

10. The rules for retirement plans can be complex. If you need assistance, don't hesitate to call.

