



Exceptions to the IRA 10% Early Withdrawal Penalty

How to avoid paying penalty fees on IRA withdrawals.

If you need to withdraw money out of a traditional IRA earlier expected, the withdrawal will be taxed and also subject to an early withdrawal penalty tax of 10%. There are exceptions to those taxes however. Here are eight circumstances which may qualify for an exception to the IRA penalty tax on withdrawals that are taken before you reach age 59 1/2.

1. Medical Expenses

- By paying medical expenses that are more than 10% of your adjusted gross income can qualify as an exception to the penalty rule.

2. Healthcare Insurance

- If you are unemployed and receive unemployment compensation for 12 consecutive weeks, used the IRA early withdrawal to pay for your medical insurance, and you meet the additional requirements per the IRS, you should be exempt.

3. Disability

- If you're disabled, obtain a doctor's verification to qualify for an exception to the penalty tax.

4. Inherited IRA

- If you inherit an IRA and choose to name the IRA as an "inherited IRA", even if the IRA owner was under age 59 1/2, you will not have to pay the penalty tax on amounts withdrawn. You will still have to include any IRA withdrawal in your adjusted gross income.

5. 72(t) Payments

- Internal Revenue Code Section 72(t), or the Substantially Equal Periodic Payment (SEPP) rule, lets taxpayers withdraw money from their retirement accounts at any age, penalty-free. There are certain rules, however, and must use an approved method to calculate an ongoing withdrawal amount.

6. Qualified Higher Education Expenses

- IRA early withdrawals used to pay qualified higher education expenses on behalf of you, your spouse, or the children or grandchildren of you or your spouse, are exempt from the 10% penalty tax if they were paid to an eligible educational institution.



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7. First Time Home Purchase

- Up to \$10,000 of an IRA early withdrawal that is used to buy, or build a first home may be exempt from the 10% penalty tax. If both you and your spouse qualify as first time home buyers, then each of you could withdraw \$10,000 from each of your respective IRAs without paying the 10% penalty tax.

8. Qualified Reservist Distributions

- A qualified reservist distribution is not subject to the penalty tax on IRA early withdrawals. Check the [IRS Publication 590](#) for specifics on this exception.

Specific details on these exceptions are from the online [IRS Publication 590](#), for further information or clarification.

Carl Mir
info@mirtaxes.com
www.mirtaxes.com