

IRA Distribution Q&A

Note: The information below is designed to provide general information concerning IRA accounts. It is not intended to provide legal advice nor to be a detailed explanation of how this information may apply to your individual circumstances. For specific information, you are encouraged to consult your tax or legal professional, IRS Publication 590 for Individual Retirement Accounts, and/or the IRS website at www.irs.gov.

Can I withdraw from my IRA?

IRAs were specifically designed for individuals to save for retirement. Because of the tax breaks that are usually associated with having an IRA, any withdrawals before the age of 59½ are taxed and penalized. (Principal contributions to a Roth IRA may be withdrawn tax and penalty free at any time, however, the earnings will be taxed and penalized) After the age of 59½, IRS penalties no longer apply, however, depending on how the IRA is invested, term or investment based penalties may apply. Contact your financial institution for specific penalties associated with investment types.

Are there any exceptions for withdrawing from an IRA without penalty?

Yes. There are several situations in which the IRS allows for penalty free withdrawals. These are referred to as qualified distributions and are:

- Distributions made on or after the date you attain age 59½
- Distributions made after at least five years (*Roth IRAs only*)
- Distributions are part of a series of substantially equal periodic payments (*Traditional IRAs only*)
- Distributions made to your beneficiary (or your estate) upon your death
- Eligible medical expenses in excess of 7.5% of your adjusted gross income (*Traditional IRAs only*)
- Medical insurance premiums for eligible unemployed individuals (*Traditional IRAs only*)
- Qualified higher education expenses (*Traditional IRAs only*)
- Disability distributions
- Qualified first-time home-buyer distributions (*up to \$10,000*)
- Distributions paid directly to the IRS due to an IRS levy

What are the taxes when I withdraw from my IRA?

The amount of taxes that you will pay on an IRA withdrawal depend on your personal tax filing bracket and whether or not any of the contributions were non-deductible. Refer to a tax professional for specific amounts based on your personal tax liabilities.

What are the penalties if I take money out before I'm 59½?

If an IRA withdrawal is made and none of the above exceptions apply, the IRS charges a 10% Federal penalty. This is in addition to the taxes that will be due for the amount that is withdrawn. In addition, most states apply a penalty as well (California is 2.5%). Also, depending on how the funds are invested, there may be term or investment penalties that apply. Contact your financial institution for penalties associated with investment types.

Can I have withholding applied to my distribution?

Yes. Federal and State (California only) withholding can be applied to any IRA withdrawal as a pre-payment of taxes and/or penalties.

What happens in the event of my death?

In the event of your death, your designated beneficiary(ies) will receive the balance in your IRA. There are several options available to your beneficiary on how the funds can be disbursed based on their relationship and age.

Am I ever required to make withdrawals?

For Roth IRAs, because contributions were not deductible and the earnings are tax free, there is no point in which you will be required to begin withdrawing the funds. However, the earnings on Traditional IRAs are tax deferred. During the tax year in which you reach the age of 70½, you must begin making regular withdrawals from your IRA.

How much must I withdraw?

The minimum amount that is required to be withdrawn is based on a formula provided by using the IRS life expectancy tables. Although this calculation will provide you with the minimum requirement, you may always take out more as you need.

What if I have IRAs at multiple institutions? Can I satisfy my withdrawal requirement from one?

Yes. The IRS only requires that a certain amount be withdrawn each year so that they can tax it accordingly. As long as the amount that is withdrawn covers the aggregate minimum amount from each IRA, then one distribution can be taken. It is recommended that you notify the financial institutions involved and make them aware so they don't force an unwanted distribution.

Can I satisfy multiple years of distributions at one time?

No. A distribution must be made from the IRA account each year. You may withdraw more than the required minimum, however, you will still be required to make another withdrawal the following year.

What if I forget to take out my required minimum?

If you do not withdraw the full required minimum distribution by the required distribution date, a penalty tax of 50% will be assessed on the amount not taken.

Will I get an IRS form each year to tell me how much I have withdrawn from my IRA?

Yes. Your financial institution will send you an IRS form 1099R by January 31st of the following year. This form should be included when filing your taxes.