

Manage

IRA Withdrawals Without Penalty

Here's the situation: You didn't think you'd have a problem keeping your savings in your traditional IRA until you reached age 59½. Unfortunately, though, you need to take money out of your account now. You'll have to pay income taxes on your early withdrawal, but what about the additional 10% penalty tax? Can it be avoided?

The federal tax law does let taxpayers off the 10% penalty hook in certain situations.

Higher Education

You can withdraw IRA funds without penalty to pay qualified higher education expenses for yourself, your spouse, your children, or your grandchildren at any public or private institution that meets federal student aid program requirements. The money can be used for tuition, fees, books, equipment, and supplies required for enrollment or attendance. For students enrolled at least half-time, room and board expenses also qualify.

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Medical Expenses

Withdrawals for the payment of medical expenses in excess of 7.5% of your adjusted gross income may be penalty-

free (other restrictions apply), as may withdrawals for the payment of medical insurance premiums after you've received unemployment compensation for at least 12 weeks.

Disability

Withdrawals on account of your disability (inability to engage in *any* substantial gainful activity) are penalty-free.

"First-time" Home Buyer

A "first-time" home buyer can withdraw up to \$10,000 (lifetime cap) to purchase a principal residence. You're generally considered a first-time home buyer if you (and your spouse) haven't owned a principal residence during the previous two years. And *you* don't personally have to make the purchase. Your spouse, your child, or your grandchild may use your IRA money as long as the qualifications are met.

IRA funds may be used to pay qualified costs of buying or building a home and settlement fees. Make sure your timing is right — IRA funds must be used within 120 days of withdrawal from your account.



Reservist

If you are a reservist ordered or called to active duty after September 11, 2001, and before 2008, withdrawals during the period beginning on the date of the order or call to active duty and ending at the close of your active duty period are penalty-free.

IRS Levy

The penalty doesn't apply to withdrawals on account of an IRS tax levy on your IRA.

Periodic Payments

You can also avoid the 10% penalty by taking a series of substantially equal periodic payments over your life expectancy or over the joint life expectancies of you and your designated beneficiary. Distributions must be taken at least annually.

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