



IRS Tax Tip 2016-32: Early Retirement Distributions and Your Taxes

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IRS Tax Tips

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Early Retirement Distributions and Your Taxes

Many people find it necessary to take out money early from their IRA or retirement plan. Doing so, however, can trigger an additional tax on top of the income tax you may have to pay. Here are a few key points to know about taking an early distribution:

- 1. Early Withdrawals.** An early withdrawal normally means taking the money out of your retirement plan before you reach age 59½.
- 2. Additional Tax.** If you took an early withdrawal from a plan last year, you must report it to the IRS. You may have to pay income tax on the amount you took out. If it was an early withdrawal, you may have to pay an additional 10 percent tax.
- 3. Nontaxable Withdrawals.** The additional 10 percent tax does not apply to nontaxable withdrawals. They include withdrawals of your cost to participate in the plan. Your cost includes contributions that you paid tax on before you put them into the plan.

A [rollover](#) is a type of nontaxable withdrawal. A

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rollover occurs when you take cash or other assets from one plan and contribute the amount to another plan. You normally have 60 days to complete a rollover to make it tax-free.

4. Check Exceptions. There are many exceptions to the additional 10 percent tax. Some of the rules for retirement plans are different from the rules for IRAs.

5. File Form 5329. If you took an early withdrawal last year, you may need to file [Form 5329](#), Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts, with your federal tax return. See Form 5329 and its instructions for details.

6. Use IRS e-file. Early withdrawal rules can be complex. [IRS e-file](#) is the easiest and most accurate way to file your tax return. The tax software that you use to e-file will pick the right tax forms, do the math, and help you get the tax benefits you're due. Seven out of 10 taxpayers qualify to use Free File, which is only available through the IRS website at IRS.gov/freefile.

More information on this topic is available on IRS.gov.

Each and every taxpayer has a set of fundamental rights they should be aware of when dealing with the IRS. These are your [Taxpayer Bill of Rights](#). Explore your rights and our obligations to protect them on IRS.gov.

Additional IRS Resources:

- [IRA FAQs](#) – Distributions (Withdrawals)
- [Publication 590-B](#), Distributions from Individual Retirement Arrangements
- [Publication 575](#), Pension and Annuity Income
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