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IRA Withdrawals that Escape the 10% Tax Penalty

The reason withdrawals from a Traditional Individual Retirement Account (IRA) prior to age 59½ are generally subject to a 10% tax penalty is that policymakers wanted to create a disincentive to use these savings for anything other than retirement.[1]

Yet, policymakers also recognize that life can present more pressing circumstances that require access to these savings. In appreciation of this, the list of withdrawals that may be taken from a Traditional IRA without incurring a 10% early withdrawal penalty has grown over the years.

Penalty-Free Withdrawals

Outlined below are the circumstances under which individuals may withdraw from an IRA prior to age 59½ without a tax penalty. Ordinary income tax, however, generally is due on such distributions.

1. **Death** — If you die prior to age 59½, the beneficiary(ies) of your IRA may withdraw the assets without penalty. However, if your beneficiary decides to roll it over into his or her IRA, he or she will forfeit this exception.[2,3]

2. **Disability** — Disability is defined as being unable to engage in any gainful employment because of a mental or physical disability, as determined by a physician.[4]

3. **Substantially Equal Periodic Payments** — You are permitted to take a series of substantially equal periodic payments and avoid the tax penalty, provided they continue until you turn 59½ or for five years, whichever is later. The calculation of such payments is complicated, and individuals should consider speaking with a qualified tax professional.[4]

4. **Home Purchase** — You may take up to $10,000 toward the purchase of your first home. (According to the Internal Revenue Service, you also qualify if you have not owned a home in the last two years). This is a lifetime limit.

5. **Unreimbursed Medical Expenses** — This exception covers medical expenses in excess of 7.5% of your adjusted gross income.

6. **Medical Insurance** — This permits the unemployed to pay for medical insurance if they meet specific criteria.

7. **Higher Education Expenses** — Funds may be used to cover higher education expenses for you, your spouse, children, or grandchildren. Only certain institutions and associated expenses are permitted.

8. **IRS Levy** — Funds may be used to pay an IRS levy.

9. **Active Duty Call-Up** — Funds may be used by reservists called up after 9/11/01, and whose withdrawals meet the definition of qualified reservist distributions.

1. In most circumstances, once you reach age 72, you must begin taking required minimum distributions from a Traditional Individual Retirement Account (IRA). You may continue to contribute to a Traditional IRA past age 70½ as long as you meet the earned-income requirement.
2. Distributions to a non-spouse beneficiary are generally required to be distributed by the end of the 10th calendar year following the year of the Individual Retirement Account (IRA) owner's death. The new rule does not require the non-spouse beneficiary to take withdrawals during the 10-year period. But all the money must be withdrawn by the end of the 10th calendar year following the inheritance. A surviving spouse of the IRA owner, disabled or chronically ill individuals, individuals who are not more than 10 years younger than the IRA owner, and child of the IRA owner who has not reached the age of majority may have other minimum distribution requirements.
3. Investopedia.com, March 5, 2022
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