IRS.gov

Topic 558 - Tax on Early Distributions from Retirement Plans, Other Than IRAs

To discourage the use of retirement funds for purposes other than normal retirement, the law imposes a 10% additional tax on certain early distributions of these funds. Early distributions are those you receive from a qualified retirement plan or deferred annuity contract before reaching age 59 1/2. The term "qualified retirement plan" means:

- A qualified employee plan under section 401(a), such as a section 401(k) plan
- A qualified employee annuity plan under section 403(a)
- A tax-sheltered annuity plan under section 403(b) for employees of public schools or tax-exempt organizations, or
- An individual retirement account under section 408(a) or an individual retirement annuity under section 408(b)

While an eligible State or local government section 457 deferred compensation plan is not a qualified retirement plan, any distribution attributable to amounts the plan received in a direct transfer or rollover from one of the other plans listed here would be subject to the 10% additional tax.

Distributions that are not taxable, such as distributions that you roll over to another qualified retirement plan or a distribution of your designated Roth IRA contributions are not subject to this 10% additional tax. For more information on rollovers, refer to Topic 413.

There are certain exceptions to this additional tax. The following six exceptions apply to distributions from any qualified retirement plan:

- Distributions made to your beneficiary or estate on or after your death
- Distributions made because you are totally and permanently disabled
- Distributions made as part of a series of substantially equal periodic payments over your life expectancy or the life expectancies of you and your designated beneficiary. If these distributions are from a qualified plan other than an IRA, you must separate from service with this employer before the payments begin for this exception to apply
- Distributions that are equal to or less than your deductible medical expenses, that is, the amount of your medical expenses that is more than 7.5% of your adjusted gross income. You do not have to itemize to meet this exception. For more information on medical expenses, refer to Topic 502
- Distributions made due to an IRS levy of the plan
- Distributions to qualified reservists. Generally, these are distributions made to individuals called to active duty after September 11, 2001 (See section 107 of the Heroes Earnings Assistance and Relief Act of 2008 ("HEART" H. R. 6081), section 72(t)(2)(G) is amended striking this phrase. The amendment made by section 107 shall apply to individuals ordered or called to active duty on or after December 31, 2007.)

The following additional exceptions apply only to distributions from a qualified retirement plan other than an IRA:

1. Distributions made to you after you separated from service with your employer if the separation occurred in or after the year you reached age 55, or distributions from qualified governmental defined benefit plans if you were a qualified public safety employee (State or local government) who separated from service on or after you reached age 50,
2. Distributions made to an alternate payee under a qualified domestic relations order, and
3. Distributions of dividends from employee stock ownership plans.

Refer to Topic 557 for information on the tax on early distributions from IRAs. For more information, refer to Publication 575, *Pension and Annuity Income*, and Publication 590, *Individual Retirement Arrangements (IRAs)*.

The 10% additional tax is reported on the appropriate line of Form 1040 (PDF). You must also file Form 5329 (PDF), *Additional Taxes on Qualified Plans (Including IRA's) and other Tax-Favored Accounts*, if:

1. Your distribution is subject to the tax, and distribution code "1" is not shown in the appropriate box of Form 1099-R (PDF), or
2. One of the exceptions applies but the box labeled "Distribution Code(s)" does not show a distribution code of "2", "3", or "4". On the other hand, you do not need to file Form 5329 if your distribution is subject to the tax and a distribution code of "1" shows in the appropriate box. In this case enter the 10% additional tax on the appropriate line of Form 1040 and write "no" on the dotted line next to the appropriate line.

Distributions from a qualified retirement plan are subject to federal income tax withholding; however, if your distribution is subject to the 10% additional tax, your withholding may not be enough. You may have to make estimated tax payments. For more information on estimated tax payments, refer to Publication 505, *Tax Withholding and Estimated Tax*.

More Tax Topic Categories

Page Last Reviewed or Updated: March 15, 2011