

February 2019 TaxInsight



Retirement Distributions

Retirement distributions are made for a variety of reasons. Depending on the facts, the result can be anywhere from a tax-free distribution to inclusion in income and additional penalties. How can you determine the likely result?

Social security benefits are either non-taxable or partially taxable. Depending on filing status and adjusted gross income, the amount of benefits subject to tax is either 0%, 50%, or 85%. I can help you determine how much of your social security is subject to tax.

Qualified plans include 401(k)s, 403(b)s, and other retirement plans administered for employers. Distributions from qualified plans are generally taxable at the federal level. If you have a distribution from a 403(b) plan, check with your state to see if the distributions are taxable at the state level. If the taxpayer has basis in the plan (in other words, they paid taxes on the amount contributed), a portion of that basis will be returned with each payment, and will be tax-free.

Taxpayers must start taking required minimum distributions either when they reach 70½ or when they retire, whichever comes later. If a taxpayer takes an early distribution, he/she may be subject to a penalty.

Traditional and Roth IRAs are other popular retirement vehicles. Distributions can be taxable, partially taxable, or fully tax free. Distributions from a traditional IRA are fully taxable, unless non-deductible contributions have been made. If non-deductible contributions have been made, a portion of each distribution is tax free. Qualified distributions from a Roth IRA are tax free. Non-qualified distributions may be subject to tax and an early withdrawal penalty.

Penalties. If the taxpayer is under the age of 59½, the taxable portion of distributions are subject to an additional 10% tax unless it is one of the following types of distributions: qualified disaster distribution, qualified HSA funding distribution, conversion to a Roth IRA, or rollovers. The table below lists a few exceptions.

Exception	IRA	Qualified Plan
Separation from service after 55	No	Yes
Disability	Yes	Yes
Death	Yes	Yes
Medical expenses over 7.5% of AGI	Yes	Yes
Qualified domestic relations order	No	Yes
Health insurance for the unemployed	Yes	No
Higher education expenses	Yes	No
Purchase of first home	Up to \$10,000	No

Tax Notes

If you can't find your tax returns from prior years, you can contact me, or you can get your transcripts online at IRS.gov. You'll need your social security number, date of birth, filing status, and the mailing address of your last return. You also need access to your email, an account number for a credit or debit card, and a cellular phone in your name.

Did You Know?

African American History month in the United States began in February 1970 at Kent State University. In 1976, President Gerald Ford urged Americans to "seize the opportunity to honor the too-often neglected accomplishments of Black Americans in every area of endeavor throughout our history." Since then, it has become a nationwide observance.

Quote Corner

"A champion is defined not by their wins but by how they can recover when they fall."

~ Serena Williams