



Don't Get Stuck Paying Extra Tax!

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To help make a down payment on a house, many people plan on using money taken from their IRA or 401(k). Using these funds, however, may have unintended tax consequences. With tax

time just around the corner, it seems like the right time to talk about what some of those consequences are.

In addition to being taxed on withdrawals at your regular tax rate, the IRS imposes an additional 10% penalty on distributions taken from IRAs and 401(k)s before age 59 1/2 unless certain exceptions apply. One of the **common misconceptions is that these exceptions include a withdrawal for home purchase.** But that isn't completely true.

Section 72(t) of the Internal Revenue Code does exempt distributions from the early withdrawal tax to the extent such distributions are qualified first-time homebuyer distributions.

Unfortunately, **the maximum amount that may be treated as a qualified first-time homebuyer distribution is \$10,000** and the exception applies only to a **first-time** homebuyer. In addition, this exception applies **only to withdrawals made from an IRA**, not a 401(k).

It's important to consult your accountant or tax professional before you decided to access funds from any type of retirement account. You don't want to be hit with any surprises come tax time!



Got questions about real estate financing?

Contact Debbie@westchester-mortgage.com or 617-965-1236. She'll consider them for inclusion in a future column. Debbie Siegel is president of Westchester Mortgage in Newton, Massachusetts. She is licensed in several Northeastern states.