Q&A

JOB LOSS: Pensions/IRA's - What's Next?

The following Questions and Answers are provided by the Internal Revenue Service to help you handle financial issues with a tax impact which may arise if you lose your job.

What if I withdraw money from my qualified retirement plan or IRA?
Generally speaking, if you withdraw the funds before you reach eligible age, and do not roll it over into another qualified retirement plan or Individual Retirement Account (IRA) within 60 days, that amount will be taxable income in the year in which it is withdrawn. You may also have to pay an additional 10% tax on those early distributions. There are special rules for computing tax on lump-sum distributions. See IRS Publication 17 or Publication 575 for detailed information.

Can I move money from my qualified retirement plan into another qualified retirement plan or IRA?
Yes, this is called a "rollover" and the amount will not be taxed if you redeposit the amount withdrawn into another qualified retirement plan or traditional IRA within 60 days. See Publication 575 for additional information.

Are there any "hardship" exceptions to the early distribution penalties?
Yes. If you are totally and permanently disabled or if you withdraw the money to pay medical expenses (these expenses must be more than 7.5% of your adjusted gross income) or to pay an alternate payee under a qualified domestic relations order. Other specific exceptions are detailed in Publication 575.

If I made an IRA contribution during the current tax year, can I withdraw it before the close of the year?
Yes. Contributions returned before the due date of the return can be withdrawn without penalty. You must take not only the contribution but any interest or dividend it may have earned. This is a tax-free event if (1) you do not take a deduction for the contribution and (2) you withdraw any income or interest the investment made while in the IRA and include that amount in your income. See Publication 590, Individual Retirement Arrangements for more information.

I've had my IRA's for several years, in some of those years I didn't benefit from any deduction due to my income. How do I figure what part of the distribution is taxable?
If you had non-deductible IRA contributions, you would have completed Form 8606 to establish your basis (cost) in your combined IRA's. Use the worksheet in Publication 590 to calculate what part of the distribution is taxable and complete section 2 on Form 8606 and attach it to your return..

If I take my pension and want to transfer it to an IRA, are there any special rules or restrictions?
Rolling over your pension distribution to a financial institution: (i.e., bank, credit union, brokerage house, etc.) is straightforward. There are some prohibited transactions including borrowing the distribution even with a signed contract with interest due, receiving unreasonable compensation for managing these funds, buying property for personal use (present or future), or using the distribution as security for a loan. Review the information in Publications 575 and 590 for additional information.

In addition to the Publications 17, 575 and 590, take advantage of every resource including your financial and/or tax advisor before deciding how to proceed in transitioning your retirement funds. Copies of the referenced publications can be found at www.irs.gov or you may call 1-800-829-3676.

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