



DISTRIBUTIONS MADE SIMPLE



## distribution trivia

**Question:**

**Which of the following distributions is subject to the additional 10 % early distribution tax?**

- A.  
A distribution made to a 30 yr old beneficiary on account of the death of the participant (or IRA Holder).
- B.  
A distribution issued to a 45 yr old participant as a result of the participant's becoming disabled.
- C.  
A Non-Qualified distribution from a Designated Roth Account where the participant's basis exceeds the cash balance.
- D.  
A distribution issued to a participant who is 50 years of age and that is classified as a "hardship" distribution.
- E.  
A distribution to a participant who is 56 years old and retired just last week.

**Scroll down for the Answer...**

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**Trivia Answer:**

**D. A distribution issued to a participant who is 50 years of age and that is classified as a “hardship” distribution.**

**Answer Commentary:**

Internal Revenue Code §72(t) imposes an addition tax equal to 10% of the distribution from a qualified retirement plan that is includible in a participant’s gross income. The tax is in addition to any income taxes that may be due on the distribution. The 10% early distribution tax imposed by IRC §72(t) is the most common penalty that practitioners come across because it deals with participants accessing their retirement funds prior to retirement age.

The 10% early distribution tax applies to any amount taken from a qualified retirement plan unless one of the following exceptions apply:

1. Distributions that are made on after the date on which the employee attains age 59 1/2.
2. Distributions made to a beneficiary (or to an employee's estate) on or after the employee's death.
3. Distributions that are attributable to the employee becoming disabled as discussed below.
4. Distributions that are part of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the employee or the joint lives (or joint life expectancies) of the employee and his designated beneficiary, and, in the case of a qualified plan, that begin after separation from service.
5. Distributions from qualified plans (but not IRAs or SEPs) made to an employee after separation from service and after attainment of age 55.
6. Distributions that consist of dividends paid with respect to a corporation's stock held by an employee stock ownership plan (ESOP) that the corporation can deduct under the ESOP rules.
7. Distributions made on account of an IRS levy.
8. Distributions to an employee that do not exceed the amount allowable as a deduction for medical expenses for amounts paid during the year for medical care (determined without regard to whether the employee itemizes deductions for the year).
9. Distributions made to an alternate payee under a qualified domestic relations order (QDRO).
10. Distributions from IRAs that are used to pay higher education expenses, purchase a first home or to pay health insurance premiums by an unemployed person.

***Letter “D” is the correct answer because hardship distributions are not specifically identified in the exceptions above.***

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