



***With respect to tax treatment
of retirement plan distributions,
which of the following statements is FALSE?***

1. The 10% early distribution penalty can apply to an individual when a hardship distribution
2. The 10% early distribution penalty would not apply to a terminated employee who is under the age of 59 1/2, if the distribution election made was for a direct rollover of the entire distribution amount
3. The 20% mandatory Federal Withholding only applies to types those distributions that are considered to be eligible rollover distributions
4. The 10% early distribution penalty applies to corrective distributions only, not earnings attributable to the excess contributions.
5. Voluntary withholding elections can be made for federal income tax purposes whenever the rules for 20% mandatory backup withholding do not apply

Scroll down for the Answer...

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Further Explanation:

The 10% additional income tax is imposed on taxable distributions from IRAs or qualified plans (including 403(b) or governmental plans), whether actually distributed or not. Amounts not included in income are not subject to the 10% additional income tax; therefore, any amount that is rolled over or any return of nontaxable employee contributions is not subject to the tax. This "Penalty" is in reality an additional income tax imposed to discourage early withdrawal of retirement funds. There are of course exceptions to the "Additional Tax" rules:

- Distribution made on or after the date on which an individual reaches age 59 ½
- Any distribution due to the death of the participant or IRA holder
- Distributions attributable to an employee's disability

- The Distribution is a part of a series of Substantially Equal Payments made over the life expectancy or joint life expectancy of the employee and the beneficiary
- Distribution is made to an employee after separation from service and after reaching age 55 (Not available with IRAs)
- Distributions used for medical expenses
- Corrective Distributions returning excess contributions or deferrals. Exception does not apply to earnings on the excess contributions or deferrals.
- Distributions due to IRS Levy
- Distributions made to any alternate payee pursuant to a QDRO (not applicable to IRAs)
- Qualified Higher Education Expenses and First Time Home Purchase (Only applicable to IRAs)

Trivia Answer:


(4) - The 10% early distribution penalty applies to corrective distributions only, not earnings attributable to the excess contributions.

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