2020 · WILL A DISTRIBUTION FROM MY ROTH IRA BE TAX & PENALTY FREE?

School Of Personal Finance

Start Here

Will the distribution exceed contributions?

- Yes → Does your Roth IRA hold amounts converted from a traditional IRA?
  - Yes → Once contributions have been removed, distributions will come from Roth conversions following the FIFO method. → Were the funds that you are withdrawing converted in the last 5 tax years?
    - Yes → Sorry, the distribution of the conversion is subject to a 10% penalty unless you are age 59.5 or older (or an exception applies).
    - No → The distribution of the conversion is tax and penalty-free. Continue on if the distribution exceeds contributions and conversions.
  - No → Distributions in excess of contributions and conversions will come from earnings. → Let's determine if the earnings will be taxed as ordinary income and/or penalized 10%. → Are you age 59.5 or older, disabled, or a qualified first-time homebuyer (lifetime cap of $10k)?
    - Yes → Will the distribution occur within 5 tax years of your first Roth contribution?
      - Yes → Sorry, the earnings are subject to income tax but there is no 10% penalty.
      - No → The distribution of earnings is tax-free and there is no penalty.
    - No → Will the distribution occur within 5 tax years of the first contribution to a Roth IRA?
      - Yes → Sorry, the earnings are subject to income tax and a 10% penalty.
      - No → Does the distribution qualify for an exception, e.g. because it was used to pay for qualified higher education expenses, unreimbursed medical bills (above 7.5% of AGI), health insurance premiums while you're unemployed, or is it a Coronavirus-Related Distribution, a Qualified Disaster Distribution (up to $100k) or a distribution made within one year after the birth or adoption of a child (up to $5k)?
        - Yes → Sorry, the earnings are subject to income tax, but you may be exempt (in whole or in part) from the 10% penalty.
        - No → Sorry, the earnings are subject to income tax and a 10% penalty.
- No → Distributions of contributions will be tax and penalty-free.

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