

No penalty for early withdrawal of IRA funds for first-time homebuyers

Dear Reader:

I am writing to remind you of a particular tax benefit that helps IRA owners and others become homeowners. The law lets individuals receive distributions from their IRAs to pay up to \$10,000 of first-time homebuyer expenses without incurring the 10% early withdrawal penalty that usually applies to withdrawals from an IRA before age 59½. (The regular income tax on the distribution still applies.)

There are some things you should know about this tax benefit. One is that a "first-time homebuyer" doesn't really have to be a true first-time homebuyer, since the law defines "first-time homebuyer" simply as someone who has not owned a home for two years. So instead of benefiting just traditional "first-time homebuyers," the law also helps "not-recent" homebuyers. Also, you can take advantage of the provision even if you yourself are not the first-time homebuyer, since the first-time homebuyer can be the IRA owner, his or her spouse, or any of their children, grandchildren or ancestors.

The \$10,000 limit is a lifetime limit on the amount of withdrawals that can be pulled out of the IRA penalty free under the first-time homebuyers provision. Although the law isn't clear, it seems permissible that, for example, a husband and wife helping one of their children scrape together a down payment can each withdraw up to \$10,000 from their respective IRAs without incurring any penalty for early withdrawal.

If you have any questions or would like to discuss this subject further please do not hesitate to call. I look forward to hearing from you.

