

Claiming an Exception to Early Distribution Taxation on a Tax Return

Background

Most retirement plan distributions reported on **Form 1099-R** and paid to the taxpayer before age 59 ½ are subject to an additional tax of 10%. This is often referred to as an early withdrawal “penalty,” although it is not a penalty by definition. There are exceptions to this additional 10% tax.

If the issuer of **Form 1099-R** knows that the taxpayer meets one of these exceptions, **Form 1099-R Box 7** will list code **2** or **3** or **4**. In these cases, **Form 1099-R** is entered in TaxSlayer as usual. See “About Form 1099-R: Scope, Codes & Distributions.”

However, though unknown to the issuer, a taxpayer with **Form 1099-R, Box 7 Code 1** may qualify for an exception to the additional tax. These exceptions are claimed on the tax return using **Form 5329, Additional Taxes on Qualified Plans (including IRAs) and Other Tax-Favored Accounts**.

Exceptions That Apply For IRA and Other Qualified Plan Distributions

- Series of equal payments
- Total and permanent disability
- Death
- Medical Expenses
- Qualified retirement plan distributions made due to an IRS levy
- Reservists while serving on active duty
- Eligible emergency expense *for distributions taken after 12/31/23*. Refer to Pub 4012, H-7.

Additional Exceptions That Apply for IRA Distributions Only

- Unemployed individuals for insurance
- Higher education purposes
- First home purchase

Additional Exceptions That Apply for Qualified Plans But Not IRA Distributions

- Separation from service after age 55
- Made to an alternate payee.

Entering Exceptions in TaxSlayer

1. Enter the taxpayer's **Form 1099-R** in TaxSlayer.
2. Navigate to **Federal Section**→**Other Taxes**→**Tax on Early Distribution (Form 5329)**.
3. Click in **Early Distributions that are not subject to 10% tax** and enter the amount of the distribution that qualifies for an exemption to the additional tax.
4. Click in **Select reason for exemption** and select the applicable reason for the exemption.
5. Click on **Continue**.
6. Continue tax return preparation as usual.