

# First-time home buyer

## Tap into your IRA without penalty pain

Normally, you must pay a 10 percent penalty tax if you tap your IRA before age 59½. But if you're buying your first home, you probably need to free up some down-payment cash.

**Strategy:** Take an IRA distribution without fear. A special tax-law exemption makes IRA distributions exempt from the penalty tax if they're used for first-time home-buyer expenses. A \$10,000 lifetime limit exists for this loophole.

*Inside tip:* The new home doesn't actually have to be your "first" home. You'll meet the tax-law requirements as long as you haven't owned a principal residence for at least two years before the purchase date of the new home. *Remember:* Although you can dodge the 10 percent penalty tax, you'll still owe income tax on your IRA withdrawal.

## Give boost to house-buying child

How can you help your newly married child buy a home if your money is tied up in investments? **Strategy:** Tap into your IRA. That distribution is exempt from the 10 percent penalty tax if the money is used for any first-time home-buyer purchase—even if it's not your home. You still qualify even if the home remains a relative's principal residence.

*Inside tip:* If your spouse owns an IRA, he or she can also withdraw \$10,000 penalty-free, giving your child a total of \$20,000 in cash. You'll face no gift-tax liability because of the annual gift-tax exclusion.

## Unlock tax break for Roth IRAs

What if you stash money in a Roth IRA, rather than a traditional IRA? **Strategy:** In such a case, go ahead and use the Roth IRA for first-time home-buyer expenses. Unlike a traditional IRA, qualified distributions from a Roth IRA are completely tax-free if the money is used for first-time home-buyer expenses (subject to the same lifetime dollar cap of \$10,000), assuming the Roth account has been open for more than five years. You avoid regular income tax as well as the 10 percent penalty tax on early distributions. *Inside tip:* We advise that strategy if you're over age 59½.