ED SLOTT'S IRA ADVISOR

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TAX & ESTATE PLANNING FOR YOUR RETIREMENT SAVINGS

Stop Hurricane Sandy From Causing Even More Damage

In late October, Hurricane Sandy – a.k.a. Frankenstorm – pounded the eastern part of the United States causing, by some estimates, more than $50 billion in damages. Unfortunately, many of those who've been affected by Sandy could be about to make a bad situation worse by making costly financial and/or tax mistakes. If your client has been impacted by Hurricane Sandy and needs immediate access to funds, one place they might be tempted to turn is to their retirement account. In general, distributions from IRAs are taxable, but if clients take a distribution before age 59½, they'll also be hit with an additional 10% penalty as well - unless they meet one of the exceptions outlined under the law.

"Hardship" is Still Not an Exception to the 10% Penalty

Unfortunately, financial hardship, no matter how bad that hardship may be, is not one of those exceptions. This often catches clients off guard and it's not too hard to see why, particularly when you consider that there are actually distributions known as "hardship distributions." These hardship distributions are not exempt from the 10% early distribution penalty though. They are simply distributions of company plan funds that would otherwise be unavailable to a client (IRAs don't have hardship distributions). Hardship distributions are not always available from company plans. They are an optional feature. If your client's plan includes this option, then you must check to see what the hardship rules are and how the distribution might be impacted by other factors, such as insurance proceeds your client receives.

If your client lives in *specific* areas identified by IRS as "covered areas," IRS Announcement 2012-44 grants some relief. The announcement indicates that any client (or their spouse) that lives or works in a covered area, can essentially

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