Purchasing a home is an expensive proposition that leaves many would-be buyers feeling cash-strapped. If that's you, you might be considering taking money out of your traditional IRA to fill the need.

But should you?

If you're under age 59-½, that would be considered an early withdrawal, which generally is subject to income tax and comes with an additional **tax penalty of 10%**. The good news is, **there are exceptions**, including for certain home purchases.

## What are the conditions?

To qualify for this exception, you must be purchasing an eligible "first-time" principal residence for yourself or your spouse, your child or your spouse's child, your grandchild or parent, or another ancestor. The withdrawal will be penalty-free, though it is subject to a lifetime limit of $10,000.

In addition, neither you nor your spouse, if applicable, can have owned a principal residence within the two-year period that ends on the acquisition date. The acquisition date is the date you enter a binding contract to buy the home or the date the building or rebuilding begins.

Timing is critical. The funds must be spent to pay qualified acquisition costs within 120 days of the day you receive the withdrawal. Qualified acquisition costs include the costs of buying, building or rebuilding a home, plus any usual or reasonable settlement, financing, or other closing costs.

## Get Your Ducks in a Row

Before you take an early withdrawal, make sure you can meet the parameters above, in terms of timing, so you don't accidentally end up with a penalty. Note also that while this article focuses on traditional IRAs, Roth IRA rules are analogous. However, there are important differences.

## Questions?

To the extent that you have either a traditional or Roth IRA and want to make a withdrawal for a first-time home purchase, contact us with questions.