



## Using Your IRA for a Down Payment

One of the biggest tasks for a potential first-time home buyer is saving up for the down payment. This is generally a difficult task, requiring discipline and sacrifice. Many people do not realize that the process can be aided by investing in an IRA retirement fund. "First-timers" can take advantage of these accounts to pull out money penalty-free when the money is used for a down payment.

Most financial advisors will tell you that it is not a good idea to tap into retirement funds for a home purchase. Yet if you set up an IRA account specifically for the purpose of saving for a down payment, you will not really be raiding your retirement safety net. You may find several benefits from taking this course of action.

First of all, IRA stands for individual Retirement Account and it is designed for tax-free or tax-deferred savings for your later years. With a traditional IRA you can contribute up to \$4000 of tax-deductible money each year. For other types of withdrawals you would have to pay a 10% "early-withdrawal" penalty, but if the money is for a down payment you will not incur this fee. You will have to be taxed on the money you pull out though. A Roth IRA, however, allows you to pull out money penalty-free after five years of contributions. Plus that money is tax-free when you withdraw because the taxes on it were paid when you deposited it.

Here is another benefit to using an IRA for your down payment. The IRS allows an individual to withdraw up to \$10,000 from a single IRA account for the purpose of a down payment on a home. If you are married, you can take double the advantage of this offer. Both you and your spouse can withdraw \$10,000 each from an IRA for a down payment, if you meet a few requirements.

For starters, you must be able to prove that you are putting the funds towards the costs of buying a home. You can use the IRA funds for the costs of buying a home including settlement, financing, or other closing costs. You can even use that tax-free money for costs associated with building or re-building a home!

The other requirement you must meet according to the IRS is that you be a "first-time home buyer." Yet this term might have a looser definition than you might suspect. This status applies to those you are truly buying a home (be it a single-family dwelling, a condo, or a townhouse.) It also applies to those who have not owned a home in the past two years. This requirement also applies to your spouse. The catch is that you can only withdraw that \$10,000 amount once so you cannot use your IRA for every home down payment you may need.

Starting to put away money now into an IRA may be a great way to save up at least a portion of the sum you will need for a down payment. The tax benefits are nice and you can usually get a good rate of return on these savings. Be sure to consult your financial or tax advisor for more detailed information regarding your saving needs.