

Homebuyer 401(k) Withdrawals

By Anthony L. Scialabba IV, Esq., QKA

In recent years, the government has set forth changes related to withdrawals from a 401(k) plan account. Such changes generally grant individuals more flexibility concerning withdrawing funds from a retirement plan. In accordance with this trend, legislation was recently proposed for “penalty-free” withdrawals in connection with down payments or closing costs on a primary residence.

What does the proposed legislation provide?

In January of 2026, U.S. Representative John McGuire introduced the Home Savings Act (“HSA”) (H.R. 7185). The HSA would permit a person to have penalty-free withdrawals from a 401(k) plan account for up to five years in the event that the funds are used for a down payment or closing costs on a primary residence. In addition, the HSA would permit a person to make a penalty-free withdrawal and gift those funds to a relative, exempt from gift tax, so long as the relative uses the funds for a down payment or closing costs on a primary residence. If the HSA were to be enacted, it would apply to distributions made in taxable years beginning after December 31, 2025.

Why was the HSA set forth?

In the U.S., home affordability has decreased in recent years. As a result, U.S. Rep. John McGuire contends that the HSA would in essence get rid of financial impediments to home ownership. Thus, the HSA would empower people to invest in their own homes rather than rent from another person.

What are some of the potential impacts if the HSA is enacted?

There are various potential impacts if the HSA is enacted. In this regard, a person or his or her relative may be able to buy a home earlier than such an individual anticipated. However, the withdrawer could incur a lessened retirement savings. Another impact of the HSA could be driven up home prices, since people’s access to funds for down payments raises buying power without increased housing supply.

If you have any questions or comments with respect to homebuyer 401(k) withdrawals or any other retirement plan matters, please call 856-396-0499 or e-mail clientservices@retirewelltpa.com.