YES!

YOU CAN INVEST IN REAL ESTATE WITH YOUR IRA!

THE OFFICIAL SELF-DIRECTED IRA INVESTORS GUIDE

IRAR TRUST COMPANY

IRA RESOURCES, INC.

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CHAPTER 1

REAL ESTATE IRAS 101

ESSENTIAL STEPS TO GETTING STARTED

Investing in real estate with self-directed IRAs— there's amazing potential, but these accounts are often overlooked and typically underutilized. What do IRA investors need to know before starting the investment process? You'll find it here. You'll get an overview of self-directed IRAs, what kinds of real estate you can invest in, and how to utilize your existing retirement savings to get started right away.

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Introduction

Can you imagine— a future where your retirement is secured by physical property. A future where you know that no matter what the stock market looks like, there is a tangible asset you and your retirement can rely on.

That's why investing in real estate is such a popular strategy. Unlike stocks, bonds, and mutual funds, it's something you can touch, something you can feel, something you can depend on— no matter what happens. That's the kind of security most people want in a retirement investment.

Investors have been able to buy real estate with their retirement plans since the creation of IRAs in 1974, but most don't realize this potential to diversify exists. Investors who do invest in real estate use personal funds or loans to buy real estate and often don't even know they could be making the same type of investment with their retirement savings.

But they could be— and you could too. You just need the right kind of retirement account.

These retirement options aren't generally offered by traditional banks, even when they have a product with the same name. And with real estate averaging returns better than most stocks in the long term —with the added benefit of being a physical asset— it's no surprise investors are tempted. It's becoming more and more popular, as investors catch on to this strategy to diversify their retirement funds by investing in real estate and related assets.

Sound appealing? You aren't the only one who's intrigued.

If you're ready to join the millions of people (and billions of dollars) invested with self-directed IRAs— stay tuned. We'll help you take your retirement to the next level.

This is chapter 1 of our eBook, *Yes! You CAN Invest in Real Estate With Your IRA!*

We'll cover what you need to know to get started. You and your IRA will be investing in real estate in no time!

What's a Self-Directed IRA?

A self-directed IRA is an individual retirement account (IRA) that lets you invest in alternative assets like real estate and private placements with your retirement savings.

With self-directed IRAs, you can expand and diversify your investment opportunities beyond the stock market and into a variety of assets— like mortgages, notes, physical real estate, and private placements. By diversifying your investments, you increase the chance of protecting and enhancing your retirement.

The term self-directed simply means that you have complete control over selecting and directing your IRA investments. With a self-directed account, your IRA can buy real estate, notes, limited partnerships, commercial paper, and almost any type of asset, instead of pre-selected or advisor-guided investment choices.

Your current bank or brokerage firm may offer something called a self-directed IRA— but how self-directed is it, actually? Often these big banks' idea of self-direction is a list of acceptable investments you can choose from, and most of these imitation self-directed IRAs don't allow you to invest in real estate at all. But that doesn't mean you can't do it— you just can't do it with them.

A true self-directed IRA gives you the freedom to invest in assets beyond what's typically allowed at these institutions: real estate, private placements, and other non-traditional investments. The IRS prohibits only a few types of investments (Life insurance, S-corps, and collectables, per IRC 4975), so your options are almost limitless— as long as you find the right provider.

INVESTOR TIP!

When talking to your IRA provider, ask the representative if they can hold your asset. If the answer is no, keep looking.

What Kinds of Real Estate Can I Invest In?

You can invest in nearly every type of real estate investment imaginable with a self-directed IRA. The IRS prohibits only a few specific investments (addressed in the upcoming chapter on prohibited transactions). Your opportunities are constrained only by those rules and by your imagination.

For example, your IRA can invest in:

- Apartment Buildings
- Condominiums
- Commercial Paper
- Commercial Property
- Foreclosures
- Improved or Unimproved Land (Leveraged or Un-Leveraged)
- Joint Ventures
- Leases
- Limited Liability Companies (LLCs)
- Limited Partnerships
- Offshore Property
- Single Family and Multi-Unit Homes
- Tangible Asset Deeds
- Tax Lien Certificates
- Trust Deeds and Mortgage Notes

Can I Use My Existing Retirement Account?

If you already have an account at another retirement provider (including an old 401(k) or other employer plan), you can move that account to a self-directed IRA. It's a totally normal thing that investors do every day, and the process isn't complicated.

There are no tax consequences for transferring your account (though there are some rules about how, when, and to who— see our chapter, How To Fund Your New Self-Directed IRA for more details).

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Why Do I Need an IRA Custodian?

To invest with your retirement savings, you need a custodian. A custodian is required to maintain the IRA's tax-advantaged status, per IRS guidelines— this is true whether you're investing in real estate with IRAR or in mutual funds with Charles Schwab. But to invest in alternative assets, generally you have to open a self-directed IRA with a custodian that specializes in these investments. The company holds title of your assets for safekeeping and annual reporting of your account. Often times this is a custodian, but not always.

There are a few types of providers:

IRA Custodians
You've got IRA Custodians (like IRAR), which are regulated directly by the state and federal law. They'll directly hold your IRA assets and investments, are directly overseen and regularly audited by the state they're chartered out of.

IRA Providers & Administrators
Then there are IRA Providers and Administrators. They usually aren't custodians, and instead rely on another custodian (a separate entity) to custody their clients' investments. They aren't directly regulated, and are instead audited and vetted by their custodian.

IRA Promoters
Then you've got IRA Promoters. They usually offer a product they service to hold your investment (Like an LLC). They generally aren't custodians but usually work with one. They often end up effectively acting like a 3rd-party investment provider.

Want to compare companies directly?

Use our Fees & Services Comparison Template to see firsthand.

	IRAR TRUST	COMPANY A	COMPANY B
What year was the company established?	1996		
Are they an administrator or custodian?	Custodian & Administrator		
Service Level Rating (1-5 Stars)	*****		
• If you left a message, how promptly was it returned?	*****		
• Did you talk to a person?	*****		
• How confident are you in the answers you received?	*****		
• Do they limit investment options?	Physical precious metals		
• What is their BBB rating?	A+		
• Are there lawsuits pending against them?	No		
• How do their employees rate them?	*****		
What is the cost to open account?	$100		
What is the annual record keeping fee?	$199 (one asset)		
Additional Asset Annually	$75		
How often do they bill?	Semiannual - For Example: One asset: $99.50 semiannually. Two assets: $137.00 semiannually.		
What is the cost to close my account? (Termination Fee)	$250		
What if I don't fully close the account?	$25		
How much for purchase and sale of assets?			
Purchase Notes, LLC, Private Stock, etc.	$50		
Purchase Real Estate - Residential, Commercial, Land, etc.	$175		
Earnest Money Deposit (EMD)	(included in purchase)		
Non-Recourse Loan Processing	(included in purchase)		
Sell Notes, LLC, Private Stock, etc.	$50		
Sell Real Estate - Residential, Commercial, Land, etc.	$175		
Common Transactions Fees			
ACH transfers	$0		
Wire transfers	$30		
Overnight delivery via FedEx, UPS, USPS, etc.	$30		
Checks	$7		
Other Fees			
Estimated Annual Cost			

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What Won't My Custodian Do?

Your IRA custodian has a specific role, and with that role comes some very specific rules it needs to follow regarding its behavior.

Your custodian will not:

- Identify investments
- Vet and determine investment risk
- Negotiate purchase or sale price
- Track or monitor income or expenses
- Provide advice of any kind, including financial or legal advice

Custodians and other providers are supposed to be passive, arm's length from the IRA and the IRA's investments, and aren't supposed to give any advice. You do run into some unscrupulous or rule breaking providers sometimes, so be aware— this can put your retirement at risk. If you see a provider willing to break these rules, run away.

What Are My Responsibilities With My Self-Directed IRA?

Self-directed IRAs give you the freedom and power to invest way beyond traditional retirement assets— but with great power comes great responsibility.

As a self-directed investor:

- You must vet your investments yourself
- You make all the decisions for your IRA
- You are responsible for following IRS rules and keeping your account compliant
- You must find your own qualified tax and investment advice
- You are responsible for reviewing your account statements regularly.

In a Nutshell

Don't be one of the many investors missing out— self-directed IRAs are an excellent opportunity to diversify into an asset class you can rely on. You just need a self-directed IRA and the know-how to make it work.

Looking for the right IRA custodian to make it all come together? IRAR makes self-direction easier—we're the fastest growing custodian for real estate investments for a reason.

If you have more questions or want to talk to one of our representatives, we're always be happy to help. Reach one of our Certified IRA Services Professionals (CISP) by phone or email.

READY FOR THE NEXT CHAPTER?

CHAPTER 2:

The Secret to Big Savings: Self-Directed IRA Fees Explained

CHAPTER 2

THE SECRET TO BIG SAVINGS

SELF-DIRECTED IRA FEES EXPLAINED

Want to get the best price for your Real Estate IRA? Knowing what to expect is half the battle— the rest is finding a provider who charges in a way that works for you. Get the lowdown on self-directed IRA fees, how providers charge, and what to look out for to SAVE BIG in this chapter.

Introduction

As much as we all wish retirement plans were free of charge, they aren't. Companies that provide services for retirement plans ALWAYS charge fees in some way, even if it's not clear how. Afterall, they have to cover basic business costs to service your account, so they always find a way.

Even so, you'll sometimes see promotions by big banks where they offer great benefits like making a contribution to your account or promises to match your retirement savings, all while promoting these accounts as free— don't be fooled. There is no such thing as a free IRA.

Here is a limited list of fees you'll find with most retirement accounts (not just self-directed IRAs):

- Inactivity fees
- Low balance fees
- Commission fees
- Service fees
- Management fees
- Other fees
- Advisory fees
- Investment fees
- Participant fees
- Minimum account funding requirements to receive bonuses

Fees have a big impact on retirement savings— they slowly add up over time, preventing you from putting your hard-saved money to work for your future retirement. It's been shown they're one of the biggest drains on retirement savings, year after year. A difference of just 1% can make a huge difference over a lifetime, leaving you with less to save and invest for your future— and that's true beyond just self-direction.

It's pretty simple —
the more you pay on fees, the less you have to save, invest, and grow for your future.

Because of this, it's important to carefully compare costs between IRA custodians, so you know you're not wasting money you meant to save for your retirement.

You can end up saving literally thousands of dollars when comparing costs across providers. We recently had a new client transfer their account to IRAR and they saved $1,700 on annual fees alone, because their old provider charged based on the total value of her account. It makes a major difference.

Use this chapter to help you do your research and compare costs across providers, so you know you're getting the best deal for your self-directed IRA. Let IRAR help you get the best value for your real estate IRA.

Self-Directed IRA Custodial Fees: Explained

Most providers divide their fees into two categories: annual administration or recordkeeping fees and individual transaction fees. But every self-directed IRA provider is different and charges differently— some providers are all-inclusive, with others based on number or type of asset, some charge annually, while others charge quarterly. It's a good idea to confirm the custodian's fee schedule when opening the account, so you know what you're paying up front.

Annual & Recordkeeping Fees

Annual administration/recordkeeping fees are the fees you pay your provider yearly for their administration and custody of your account.

Custodians have a few ways they charge annual administrative fees— most charge a percentage based on the total value of your account (not just the available cash), sometimes referred to as **per-value**. Some (like IRAR) charge a flat fee based on the number of assets, often called **per-asset**. Even fewer charge an **all-inclusive** fee that covers a limited number of transactions each year, but this is not common.

On top of these recordkeeping fees, per-value custodians sometimes charge an additional **asset-holding fee**. This is sometimes annual, semi-annual, or even quarterly (on top of other annual and transaction fees). Some providers do charge an asset fee for cash, or sometimes they'll incorporate the cash into the overall value of the account.

The charge for holding real estate is often one of the most expensive, ranging from $20 to $600 per asset. Look out for other fees like this, since some custodians aren't always transparent about how much their accounts can cost.

When talking about self-directed IRAs, per-value tends to be the most common way to charge. Note— this is usually calculated based on your overall account value, not just the cash in the account.

An Example...

The average IRA is worth about $100,000.

At one of the more expensive per-value IRA custodians, this average investor would pay about $550.

At a custodian that charges per-asset, this same investor would pay based on the number of assets. Say this real estate investor owns one single-family home in their IRA— at a per-asset custodian like IRAR, they'd pay our minimum fee of $199 a year.

If your account was worth more, you could be saving even more.

Another Example...

So say your IRA has a balance of $300,000, and holds 2 real estate assets.

At one of the more expensive per-value custodians, that puts you at $946 a year.

At a custodian that charges per-asset, you'd pay based on just the number of assets, no matter the value— for example, at a company like IRAR you'd pay $274 a year ($199 base asset fee + $75 additional asset fee).

That's a savings of $672.

Keep that in mind— the way your provider charges can make a big difference in your annual IRA costs. Make sure their fee schedule makes sense for your investment strategy.

Transaction Fees

This is an area some IRA providers can really get you. Most custodians charge fees for processing various transactions on top of administrative fees. This is standard practice in the industry to cover basic business costs, but some companies are more eager to pass those fees along to you than others.

There are some fees you'll run into almost everywhere (like check, wire, and overnight fees), but others are less common and you've got to watch out for them (like charging for earnest money deposits, statements, or non-recourse loans).

You won't be able to avoid transaction fees entirely— even if using a provider touted as "all-inclusive", there's almost always a catch. If you take stock before you begin, you can find a custodian that doesn't break your retirement bank before you even get there.

These little fees add up.

Costs to Purchase Real Estate with a Self-Directed IRA

There are a few things real estate investors tend to get charged for other investors don't need to worry about. Most providers will charge for processing purchases and sales. Some have additional fees for Required Minimum Distributions and non-recourse loans, or if you're transferring in real estate you already own from another plan. Almost all providers charge to send funds out of your account, as banks generally charge per-transaction, but the amount varies.

An example of savings:

Fees Associated with a Real Estate Purchase

(Not all fees apply to every purchase)

Purchase (includes Non-Recourse Loan and Earnest Money Deposit)	$175
Check	$7
Cashier's Check	$30
Overnight Delivery	$30
Wire Transfer	$30
ACH Transfer	No Fee
Notary Fee	$15

Some providers will also charge an additional fee to process HOA payments, utilities, and other bills, but not at IRAR. However, we do charge depending on the method of payment processing (shown in the above chart). You can save on these fees by researching custodian fees and prepaying these in bulk, or through a property manager that your IRA reimburses all at once.

Tips to Save Big on Real Estate IRAs:

What's the best way to save big on your real estate IRA? Do the math. Some providers are seriously cheaper, and the wrong custodian could be the difference between wealth-building and retirement breaking.

Consider not just your costs now, but in the future, if your investments pay off— the best cost provider may end up costing you big down the line if you aren't careful.

1. Do the math

You know what your plans are for your IRA better than anyone. Look at your current account value and at your plans for the future, then estimate what your costs would be at each custodian now and 5 years from now. The easiest way to save big on your self-directed IRA is to choose the right provider to begin with.

2. Compare directly

Once you've estimated what your real estate IRA should cost, start comparing the actual costs for your current and future account across providers. Some providers make their money by nickel-and-diming real estate investors, and be sure to check under "special services" before opening your account with these custodians.

3. Consider the service

You'd think fees would be the only thing to worry about when considering costs, but if your self-directed IRA is held by a provider who is slow, sloppy, or uninformed, that can be expensive. Keeping transactions timely, accurate, and in compliance is essential— so before scraping the bottom of the barrel, consider what you're really paying.

Use this tool for help comparing providers and fees:

ACCOUNT ESTABLISHMENT FEE

IRA custodians usually charge an account establishing fee to open your account, so take this into consideration when making plans for your retirement

1	Account Opening Fee	$

ANNUAL RECORDKEEPING & ASSET HOLDING FEES

Providers don't all charge the same annual fees – use the table below to get the best deal for your IRA:

Based on Account Value		
	Your Account Value	$
	% Multiplier (ex: .0060%)	%
	Other	$
	Subtotal	$
2	My Annual Recordkeeping Costs TOTAL	$

OR

Based on Number of Assets		
	Number of Assets	
	Base Fee/First Asset	$
	Each Additional Asset (price per asset ________)	$
	Subtotal	$
2	My Annual Recordkeeping Costs TOTAL	$

TRANSACTION FEES

It's typical for IRA custodians to charge fees for processing specific transactions— but some charge more than others. Compare them here:

*Note that some providers offer "all-inclusive" IRAs will still charge additional fees.

	# Anticipated (per year)	Cost (per transaction*)	Est. Annual Subtotal
Real Estate Purchase/Sale			
Earnest Money Deposit			
Checks Deposits			
Checks (Outgoing)			
Cashier's Check (Outgoing)			
Wires (Incoming/Outgoing)			
ACH (Incoming/Outgoing)			
Overnight Mail			
Transfers (Incoming/Outgoing)			
Distributions & RMDs			
Account Statements			
Non-Recourse Loan			
Other			
3 My Annual Transaction Costs			$

ADD UP YOUR TOTALS FROM BOXES 1, 2, & 3 TO GET YOUR TOTAL ANNUAL COSTS

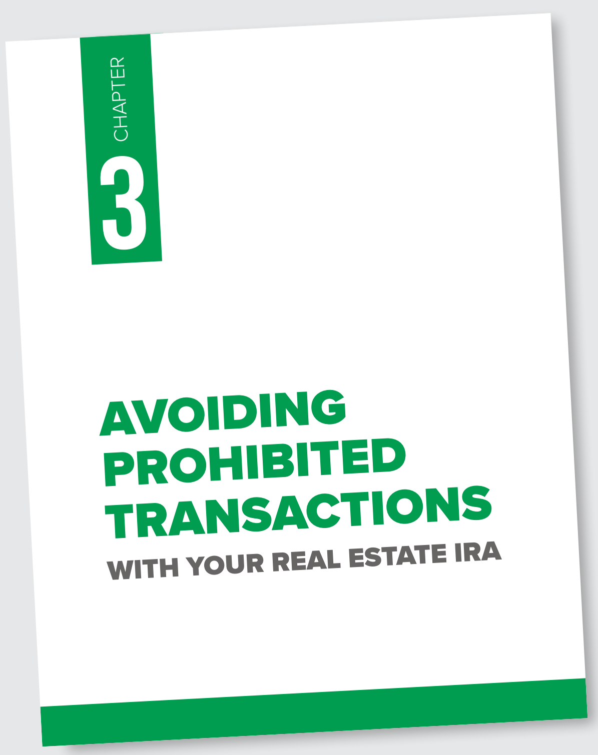
Box 1 - **Enrollment**	$
Box 2 - **Annual**	$
Box 3 - **Transaction**	$
My Est. Total Annual Fees*	$

In a Nutshell

If you want to invest with a self-directed IRA, you'll have to pay someone to custody your retirement account (that part's a requirement). But you don't have to pay out the nose to do so— low-cost providers do exist, you just need to know what to consider for your strategy.

The key things to consider are:

- How they charge— per-value or per-asset, and how that impacts your account
- Transaction fees— do they charge for every little thing, and does it impact your savings plan?
- How frequently they charge— do they bill quarterly? Annually?
- The rest— that's up to you.



READY FOR THE NEXT CHAPTER?

CHAPTER 3:

Avoiding Prohibited Transactions With Your Real Estate IRA

CHAPTER 3

AVOIDING PROHIBITED TRANSACTIONS

WITH YOUR REAL ESTATE IRA

You *need* to keep your Self-Directed IRA in check and avoid prohibited transactions— or else there can be serious consequences for your retirement account. Keep your savings safe from the start by investing as the IRS says you should. Here's what you need to keep in mind:

Introduction

You've got a lot of freedom with a self-directed IRA, but you do have a few rules you need to follow. Investing in real estate with your self-directed IRA is a lot like investing in real estate outside of your IRA— except the IRS prohibits a few things (per IRC Section 4975). These forbidden investment types and transactions are really the biggest differences between IRA investing and the traditional real estate purchase (aside from the tax benefits)— except you really, *really* need to follow the rules. Otherwise you can put your account and your tax status at risk.

Prohibited Transactions

Specifically, there are a few types of investments, transactions, and situations prohibited by the IRS, known as **prohibited transactions**.

They exist to prevent you and your IRA from having an unfair advantage over other investors and keep you (or you through your family) from benefiting directly from the IRA— at least until you've retired.

Prohibited Investment Types

The IRS doesn't have a list of "approved investments" for self-directed IRAs, but what the IRS does have is a list of prohibited investment types, transactions, and situations it does not want your IRA to engage in.

Self-directed IRAs can't invest in:

- **Collectibles** - like art, antiques, gems, coins, alcoholic beverages, and certain precious metals (See IRC Section 590)
- **S-Corporations** – defines allowable shareholders in Subchapter S corporations, which does not include IRAs (see 26 USC 1361)
- **Life Insurance** - (See IRC Section 408(a)(3))

Disqualified Persons

There are specific individuals (known as **disqualified persons**) that the IRS forbids your IRA from engaging in transactions. Any transaction with these individuals is a prohibited transaction (with one exception— when partnering on a new transaction. More details in our chapter on partnering.)

Disqualified Persons:

- You
- Your spouse
- Any of your lineal ascendants or descendants (parents, children, grandchildren, and the spouses of children, grandchildren, etc.— including legally adopted children)
- Any investment providers or fiduciaries of the IRA
- Any entity (like a corporation, LLC, or trust) where a disqualified person owns more than 50%
- Any entity (like previously listed) where the IRA account-holder is an officer, director, a 10% or more shareholder, or a highly compensated employee

Your IRA can't engage in any transactions with these individuals (with a few exceptions, like when your IRA partners on a new transaction) or you can lose the tax-status of your account.

Otherwise, if you don't follow these rules, you're putting your account at risk.

Self-Dealing

One of the most common prohibited transactions is known as self-dealing, which is when the IRA owner attempts to do business with themselves. This isn't allowed. You can't buy or sell property to yourself, you can't lend money to you from the IRA, and you can't pay any IRA expenses or take any IRA income personally. You can't use any IRA asset for personal benefit in any way— this is a prohibited transaction.

Sweat Equity

You can't do any work at all on the property— this is not something allowed with a self-directed IRA. No matter your expertise, no matter the size of the job.

Any work you perform on or for the asset is prohibited. Often called sweat equity, it refers to any work you personally do on a property (the "sweat" referring to effort spent to improve the investment, instead of paying an outside provider). So if you're a contractor, you can't fix a clogged toilet or leaky sink— that's prohibited.

With a self-directed IRA, you (or a disqualified person) are not allowed to personally do any work on the property, no matter how big or small. Any repair, improvement, or maintenance must be performed by a paid, non-disqualified person to avoid any unfair advantage to your IRA investments. The IRS sees this money you saved by doing the work yourself as an indirect benefit, so you need to steer clear.

Examples of Prohibited Transactions in a Real Estate IRA

BUYING OR SELLING A PROPERTY TO OR FROM YOURSELF

You currently own a property and want to buy with your IRA.

- This is a prohibited transaction because you're a disqualified person to your IRA.

You own property for investment purposes and want your IRA to buy it.

- Even if it's just for investment purposes, this is still a prohibited transaction. You already own the property and you are a disqualified person.

You're a business owner and you want to use your IRA to buy a property that your company owns.

- If you own over 50% of the business, you're a disqualified person, which means this is a prohibited transaction.

You're a real estate agent. You're selling a property for your IRA and want to receive commission for listing a property.

- If you receive commission, this is a prohibited transaction. You can be the agent for your IRA, but you can't receive any commission since you're a disqualified person.

Why are these prohibited transactions?

The IRS forbids "self-dealing"— any transaction between you and your IRA. If you already own the property, you won't be able to buy the property with your IRA— and same in reverse, you can't buy property from your IRA. Those are considered prohibited transactions.

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COMBINING IRA AND PERSONAL FUNDS OR PROPERTY

Using funds from your IRA LLC (that you'll pay back) to pay a non-IRA expense.

- As mentioned above, you're considered a disqualified person to your IRA, so this is prohibited. This isn't allowed— personal and IRA funds must stay strictly separate.

You want to deposit your IRA's rental check into your personal bank account so you can pay a contractor ASAP.

- It doesn't matter if the funds are on their way or if you need them ASAP, combining personal and IRA funds is not allowed. This would be considered a prohibited transaction.

You want to use your IRA-owned property as collateral on a personal loan.

- This isn't allowed. Your IRA is a distinct, separate entity from your personal assets and investments. This would be prohibited transaction.

Your loan provider wants a personal guarantee a loan for your IRA.

- This isn't allowed. The only available loan type for self-directed IRAs is non-recourse, with no added liabilities or carve outs.

Why are these prohibited transactions?

You're a disqualified person, so any transaction between you and your IRA is prohibited. Your IRA is treated as a separate entity, distinct and different from (though obviously related to) you and your personal financials.

PERSONALLY LIVING, USING, OR WORKING ON THE PROPERTY

Your IRA is buying some commercial real estate to rent the building but want to use one office yourself.

- You can't use property held in your IRA. If you're planning on using the property even once, that's prohibited.

You want to buy a vacation property with your IRA for you and your family to use.

- If your IRA owns the property, you can't stay in it (not even for one night). Until the property is out of your IRA, you can't use the property.

You're a contractor, so you want to renovate property your IRA owns yourself.

- Unfortunately, this is prohibited. You're saving money by doing this work yourself instead of paying someone, so it isn't allowed.

You live nearby and are handy, so you want to be the on-call handyman for your IRA-owned rental property.

- This is prohibited. You're benefiting from your personal labor by saving money on upkeep, so this isn't allowed (no matter how big or small the job).

You want your IRA to buy vacant land and build on it yourself?

- You can't do the work personally on land owned by your IRA. You'll have to hire a construction company or else this would be a prohibited transaction.

You want your IRA to buy vacant land to personally farm or work?

- Unfortunately, you can't do this. Like mentioned above, you can't do any work on your IRA-owned property, no matter the type. You may hire non-disqualified persons to do this work for you.

Why are these prohibited transactions?

The IRS prohibits the IRA-owner from putting "sweat equity" into their investments, (except in certain circumstances). Sweat equity means any work done on or for the property that your IRA would have had to pay someone to do, if not done by you.

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BUYING OR SELLING A PROPERTY TO OR FROM A DISQUALIFIED PERSON

Your parents want to downsize, and you want to buy their house with your IRA.

- Unfortunately, your parents are disqualified persons, the IRS doesn't allow this.

You want to sell a property you own in your IRA to your daughter.

- Your daughter is a disqualified person, so this is a prohibited transaction.

You want your IRA to buy a property owned by your wife's IRA.

- Unfortunately, your wife's IRA is also a disqualified person, so this isn't allowed.

Why are these prohibited transactions?

The IRS is looking to prevent any personal benefit, tangible or intangible, that could arise from a transaction with your IRA. This is related to the "arm's length" requirement for self-directed IRAs, where all transactions must be completed at arm's length from the account holder to assure no personal benefit from the investments.

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DISQUALIFIED PERSONS LIVING, USING, OR WORKING ON THE PROPERTY

You want your IRA to buy a house for your daughter to live in during college, and then later rent out.

- This isn't allowed, since your daughter is a disqualified person. You could buy a property and rent it out, but your daughter can't live there, not even for a few years.

You want to let your parents/children/financial advisor stay in your IRA-owned property for just one night.

- Any disqualified persons (including you) can't stay in the property at all—not to live, not to vacation, and not even for one night.

Your IRA-owned property needs some repairs and you want to use your son's construction company to do the work.

- Your son is a disqualified person, so any company he has a controlling ownership in would be considered disqualified.

Why are these prohibited transactions?

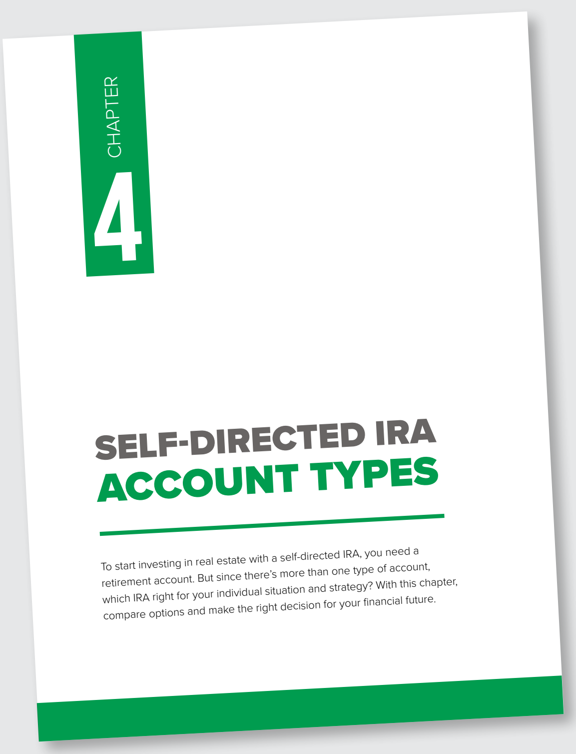
The IRS doesn't allow any benefit given to a disqualified person, either directly or indirectly. Disqualified persons cannot use or perform work on the property, even if they are being paid for it. The goal is to avoid benefits gained through avoidance of taxes, an unwritten quid-pro-quo agreement, or any other possible arrangement.

In a Nutshell

Prohibited transactions are the most important things to keep in mind when investing with a self-directed IRA— make the wrong move and you can put your retirement account in jeopardy. This guide will help you to avoid major pitfalls.

Do you have any more questions? Specific concerns?

If you need help, give us a call or email.



READY FOR THE NEXT CHAPTER?

CHAPTER 4:

Self-Directed IRA Account Types

CHAPTER 4

SELF-DIRECTED IRA ACCOUNT TYPES

To start investing in real estate with a self-directed IRA, you need a retirement account. But since there's more than one type of account, which IRA right for your individual situation and strategy? With this chapter, compare options and make the right decision for your financial future.

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Introduction

The first step to investing with a self-directed IRA— deciding what type of account to open.

There are different options for investors and business owners alike, and which account you open impacts what you can and can't do, so it's important to get it right.

If you already have an IRA and need to move it to IRAR, you'll still need to open a new account. Here's how:

Moving Existing Retirement Funds? Be Sure to Open the Right Account

There are rules about moving retirement funds. You can't just take funds from any retirement account and move them into another— there are restrictions about where and when they can be moved.

Because different retirement accounts have different rules and contribution limits, the IRS restricts the movement of funds between certain accounts. For example, due to the tax differences, a Roth IRA can't be transferred into a Traditional IRA. However, in another example, a Traditional IRA can be moved into a SIMPLE IRA— but only after the plan has existed for two years.

If you plan on moving existing retirement savings from a qualified plan or existing IRA, you should make sure you're opening the right kind of account from the start. Reach out to IRAR if you have any questions.

ROLLOVER CHART

		Roll To							
		Roth IRA	**Traditional IRA**	**SIMPLE IRA**	**SEP-IRA**	**Governmental 457(b)**	**Qualified Plan**[1] (pre-tax)	**403(b)** (pre-tax)	**Designated Roth Account** (401(k), 403(b) or 457(b))
Roll From	Roth IRA	Yes[2]	No	No	No	No	No	No	No
	Traditional IRA	Yes[3]	Yes[2]	Yes[2,7], after two years	Yes[2]	Yes[4]	Yes	Yes	No
	SIMPLE IRA	Yes[3], after two years	Yes[2], after two years	Yes[2]	Yes[2], after two years	Yes[4], after two years	Yes, after two years	Yes, after two years	No
	SEP-IRA	Yes[3]	Yes[2]	Yes[2,7], after two years	Yes[2]	Yes[4]	Yes	Yes	No
	Governmental 457(b)	Yes[3]	Yes	Yes[7], after two years	Yes	Yes	Yes	Yes	Yes[3,5]
	Qualified Plan[1] (pre-tax)	Yes[3]	Yes	Yes[7], after two years`	Yes	Yes[4]	Yes	Yes	Yes[3,5]
	403(b) (pre-tax)	Yes[3]	Yes	Yes[7], after two years	Yes	Yes[4]	Yes	Yes	Yes[3,5]
	Designated Roth Account (401(k), 403(b) or 457(b))	Yes	No	No	No	No	No	No	Yes[6]

[1] Qualified plans include, for example, profit-sharing, 401(k), money purchase, and defined benefit plans.
[2] Only one rollover in any 12-month period.
[3] Must include in income.
[4] Must have separate accounts.
[5] Must be an in-plan rollover.
[6] Any nontaxable amounts distributed must be rolled over by direct trustee-to-trustee transfer.
[7] Applies to rollover contributions after December 18, 2015. For more information regarding retirement plans and rollovers, visit Tax Information for Retirement Plans.

Traditional & Roth IRAs

Traditional and Roth IRAs are the most popular retirement accounts overall, but also the most popular held at IRAR Trust. Generally, our clients bring their existing retirement savings (either through a rollover from an old 401(k) plan or transferring existing IRA funds) from a large institution like Fidelity, Schwab, or Wells Fargo, since investing in alternative assets such as real estate is generally not allowed at these establishments. The investments then grow tax-free or tax-deferred (depending on the account in which account they are held), providing a variety of options most investment providers can't meet.

But there are differences between the types to keep in mind:

Traditional IRA - Tax-Deferred Savings

With no annual income limits, Traditional IRAs make it easier to set aside money for retirement. Your savings are tax-deferred and so are your earnings, and they'll both continue to grow tax-deferred until they are withdrawn. Depending on your income and eligibility, your IRA contributions may also qualify as tax-deductible.

Roth IRAs – Tax-Free Growth

Roth IRAs allow you to make after-tax contributions while still letting your money grow tax-free. Unlike with a Traditional IRA, contributions are not tax-deductible— but they do enable tax-free growth. You contribute to a Roth IRA after already paying taxes on the funds and won't owe any additional taxes on the gains when distributing. This is because you already paid taxes when you contributed, so any money taken out in retirement is tax-free. There are income limitations on who can contribute to a Roth IRA, so make sure you qualify before incorporating a Roth into your strategy.

TAX-DEFERRED:

You don't pay taxes on contributions or owe taxes on income from assets— until distributed.

Traditional and Roth IRA Contributions

The deadline tax year contributions to a Traditional or Roth IRA is on or within a day or two of April 15th, depending how the days fall. You can file a tax extension (making the deadline to file your taxes on or around October 15) if needed but filing an extension does not extend the contribution deadline— this extension applies to the filing of tax paperwork only.

If you are 50 years of age and older by the end of the calendar year, you can make an additional contribution (called a catch-up contribution). Your taxable earned income (or your income combined with your spouse's income) for the tax year can't be less than your contribution limit.

If you are over the age of 70 ½, you can't make contributions to a Traditional IRA. However, you can still contribute to a Roth IRA regardless of age (as long as you have earned income).

Five Year Rule with Roth IRAs

You may withdraw your original contributions to a Roth IRA penalty-free at any time, for any reason, no matter your age. However, any earnings on those initial contributions will be penalized if the five year rule hasn't been met and they are withdrawn before 59 ½.

The five year rule states that you must hold your Roth IRA for at least five years before withdrawing earnings without penalty. If you don't meet these conditions (say your account was open for three or four years, instead of five), you'll owe taxes and have to pay a 10% penalty on any funds withdrawn. The five years starts from the 1st of January in the year you made your first contribution to any Roth IRA.

Once you meet the conditions five year rule, you still need to be above 59 ½ or other penalties may still apply to any distributions.

For example, say you contributed $10,000 to your IRA and invested those funds well, netting you $5,000 in earnings. If you wanted to, you could distribute the original $10,000 you contributed without paying any taxes or penalties— but if you wanted to distribute the $5,000 in earnings and aren't 59 ½ or if you haven't met the five year rule, you'd have to pay taxes and an early distribution penalty on those earnings.

SEP IRAs – For Self-Employed or Small Business Owners

If you're self-employed or own a small business, a Simplified Employee Pension (SEP IRA) could be the right option for you and your staff. SEPs offer tax-deferred features (like a Traditional IRA) and extends them to the employer—but instead of the employee making contributions, the employer does.

A SEP IRA does not have the same start-up and operating costs that a conventional employer-sponsored retirement plan does, and you don't have to contribute the same amount each year. The plan lets you make tax-deductible contributions of up to 25% of each employee's compensation each year (up to the maximum)— but note that if you're self-employed then you're considered an employee, so you need to save for yourself at the same time and rate, based on your income.

Who Qualifies for a SEP?

If you're self-employed or if you're a small business owner with one or more employees, a Simplified Employee Pension (SEP) account might be for you. Unlike the Traditional or Roth IRA for individuals (which has a specific contribution deadline, generally April 15), SEPs are different. The deadline for establishing and contributing to a SEP IRA is the filing deadline for the employer's tax return, including extensions for which year the contribution will apply.

There are many reasons our clients open SEP IRAs for their business. Aside from how easy these accounts are to manage, you can change the contribution amount from year-to-year. So, say you have a construction company and you open a SEP plan for your employees. You chose this plan due to the cyclical nature of the industry, so in good years you can contribute more, but in off years you can reduce contributions. With a self-directed SEP, employee John Doe can decide where and what to invest in— though he can't make any additional contributions. The account is solely owned by him and is under his control.

Not all employees need to be included in the plan, but they **must** be included if they have:

- Attained age 21;
- Worked for your business in at least 3 of the last 5 years;
- Received at least $600 in compensation from your business for the year over the last three years.

You can decide to have requirements that are less restrictive (i.e. attained age 18), but not more restrictive than what is listed above.

Contribution Limits for SEP IRAs

A SEP IRA is tax deferred, like a Traditional IRA. That means up-front tax deductions and tax-deferred savings, so you aren't paying taxes until you withdraw the money from the account during retirement. But with a SEP IRA, you get a much higher contribution limit (up to 25% of your total income).

You can contribute a significant portion of your income compared to a much lower maximum in a Traditional or Roth IRA, though the SEP IRA doesn't allow for catch-up contributions like other IRAs.

Since the employer is making the contributions, the amounts are related to the employees' salary or wages. This means that everyone's contribution is the same percentage of salary. If you make a 25% SEP IRA contribution on behalf of yourself as the owner, you also must make a 25% contribution for your employees who qualify to participate in the plan.

One neat thing about a self-directed SEP IRAs with IRAR is that the participants can invest in a wide variety of investment types. The self-directed SEP IRA has all the same limits and rules as a regular SEP, but allows investments in alternative assets. The higher contribution limits allow you to invest in alternative assets (like real estate) faster.

Things to Remember

- The IRS has a handy checklist for business owners to use to determine their eligibility for a SEP IRA. You can use this to help you make sure your plan is compliant with IRS regulations.
- You must contribute the same percentage for all employees, including yourself. If the business contributes 20% of your income to your SEP account, it must also contribute 20% of each individual employee's income to their personal SEP accounts.
- The SEP IRA cannot issue a loan to the account-holders, and the assets cannot be used as collateral.
- SEP IRAs do not allow catch-up contributions, unlike some other accounts—the maximum contribution is capped at 25% of an individual's compensation per the tax year. See page 13.
- Employees cannot contribute any additional funds to their SEP accounts—the contribution is limited to the percentage set by the employer.
- If an employee leaves before the end of the plan year and was eligible for contributions, you must still contribute to their SEP account, even if they have already left your company. They must receive the same percentage contribution as the rest of your employees.
- Your business can deduct your contributions to employee SEP accounts. The IRS has more detailed information on limits and allowances here.

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SIMPLE IRAs – Retirement Plans for Small Businesses

Another option some small business owners consider is a Savings Incentive Match Plan for Employees IRA. Also known as a SIMPLE IRA, self-employed or small business owners sometimes choose these plans for the lower costs, the easy set-up process, and the additional employee control— with this plan, employees can also make contributions (unlike a SEP IRA).

A SIMPLE IRA is designed for small businesses with 100 or fewer employees, and for self-employed individuals (if you're self-employed, you're considered both 'employer' and 'employee'). These accounts provide a "simplified" method for small business owners and employees to save for retirement.

Is a SIMPLE IRA Right for Your Business?

An employer must meet three conditions to be eligible to establish a SIMPLE IRA (along with opening an account.)

These are:

- Currently have 100 or fewer employers
- Complete Form 5305-SIMPLE outlining the terms of the plan
- Can't offer any other retirement plans

The administrative costs of establishing and maintaining a SIMPLE IRA are very low compared to other plans. For example, at IRAR Trust we charge only our $100 account opening fee to establish the plan. They're easy to setup— aside from our new account paperwork, you only need to complete a 5305-SIMPLE to get started.

You must establish your SIMPLE IRA plan by October 1 for the tax year in which your qualifying contributions will apply, unless your business is newly created after 10/1. Contributions are tax-deferred, meaning you can deduct them and don't pay taxes on your savings until you withdraw it from your account. Unlike a SEP IRA (which only allows the employer to make the contributions), a SIMPLE IRA allows the employee to make salary reduction contributions.

The employer also generally has no filing requirements with the IRS, since IRAR Trust Company handles the reporting requirements for the plan, leaving less for you to worry over when planning for retirement.

SIMPLE IRA Requirements for Employers

Once the employer has established the SIMPLE IRA plan, they are responsible for distributing an annual notice to eligible employees. Before the employees' 60-day election period (which generally begins on November 2nd prior to each calendar year), the employer must provide to each eligible employee:

- Details about the employee's opportunity to make or change a salary reduction
- The employer's decision to make either a matching or non-elective contribution
- A summary description (the firm that established the SIMPLE IRA usually provides this)

For an employee to be eligible to participate in the SIMPLE plan, they need to have received at least $5,000 in compensation during any two years preceding the current calendar year and be reasonably expected to receive at least $5,000 for the current calendar year. The two-year requirement doesn't need to be the immediate two years before the current calendar year in order for the employee to qualify. Example:

Jill has been working for company A for the last 7 years and has earned annual compensation of:

Jill's Compensation

2013	2014	2015	2016
$2,700	$21,200	$4,350	$18,500

Since Jill earned more than $5,000 in 2014 and 2016, she would be eligible to participate in the SIMPLE IRA plan. You can decide to have requirements for eligibility that are less restrictive, but not more restrictive, than what is listed above. The IRS has some resources if you'd like more information on the rules and regulations surrounding SIMPLE IRA plans.

Contribution Limits for a SIMPLE IRA

With a SIMPLE IRA, the contributions are tax-deferred. That means up-front tax breaks and tax-deferred savings, so you don't pay taxes until you withdraw the money from the account during your retirement. Like all IRAs, SIMPLE IRAs have contribution limits. Like Traditional and Roth IRAs, if the employee is age 50 or above they are eligible for a catch up contribution. The employer is also responsible for contributing to the SIMPLE account for the employee. The employer must make either a matching contribution or a non-elective contribution to the employee IRAs.

This means that the employer is required to either:

- Match each employee's salary reduction contribution on a dollar-for-dollar basis up to 3% of the employee's compensation, without any limit,

  OR

- Make non-elective contributions of 2% of the employee's compensation, whether the employee makes contributions or not, up to the maximum.

If the employer decides to make the non-elective contributions, they must be made even if the employee decides not to make salary reduction contributions.

Things to Remember with Your Self-Directed SIMPLE IRA:

- You must establish the plan by October 1 of the tax year in which your qualifying contributions will apply.
- Employees can contribute to their SIMPLE IRA through regular payroll deductions. The contributions are tax-deferred and the investments in the account can grow tax-deferred until withdrawn at retirement.
- If the employer decides to make the non-elective contributions, you must make them even if the employee decides not to make salary reduction contributions.
- With an IRAR Trust Company SIMPLE IRA, you get all the benefits of saving for retirement combined with the freedom to invest in a wide variety of different investment types. Being able to invest in alternative assets may help you reach your retirement goals sooner than you thought. With this ability to truly self-direct your retirement, you can finally start making strides for your financial future.

IRA COMPARISON

SEP

ELIGIBILITY	CONTRIBUTION LIMITS	HIGHLIGHTS	DEADLINE TO ESTABLISH
Self-employed individuals or small business owners, including those with employees: Sole proprietors, Partnerships, C corporations, S corporations	25% of compensation or maximum cap for the year (the lesser amount) 2020 max: $57,000 2021 max: $58,000 Each eligible employee must receive the same percentage Contributions are not mandatory	Tax-deferred— so you don't pay taxes until withdrawn at retirement Tax-deductible contributions Easy to set up and maintain Funded by employer contributions only	April 15 or your tax-filing deadline

SIMPLE

ELIGIBILITY	CONTRIBUTION LIMITS	HIGHLIGHTS	DEADLINE TO ESTABLISH
Businesses with 100 or fewer employees: Sole proprietors, Partnerships, C corporations, S corporations Participating employees must have earned at least $5,000 in compensation during any 2 years preceding	Employer: mandatory 3% matching contribution or 2% non-elective contribution Participants contributions 2020: Up to $13,500 in salary deferrals ($16,500 if age 50 or older) 2021: Up to $13,500 in salary deferrals ($16,500 if age 50 or older)	Tax deferred— so you don't pay taxes until withdrawln at retirement Employer contributions are deductible as business expenses Funded by employee deferrals and employer contributions	Self-Employed (with no common-law employees) contribution deadline: Jan.30 Employer deadline: Tax filing deadline

ROTH

ELIGIBILITY	CONTRIBUTION LIMITS	HIGHLIGHTS	DEADLINE TO ESTABLISH
No age limit Must have earned income	2020: $6,000 ($7,000 if age 50 or older) 2021: $6,000 ($7,000 if age 50 or older) Contributions are not tax-deductible	Earnings grow tax-free Taxes are paid up front, so you're able to withdraw your contributions tax-free and penalty-free at any time	April 15

TRADITIONAL

ELIGIBILITY	CONTRIBUTION LIMITS	HIGHLIGHTS	DEADLINE TO ESTABLISH
Individuals less than 70½ years of age Must have earned income	2019: $6,000 ($7,000 if age 50 or older) 2020: $6,000 ($7,000 if age 50 or older)	Tax-deductible contributions based on Modified Adjusted Gross Income (MAGI)	April 15

Beneficiary (Inherited) IRAs

If your retirement account has been inherited after the death of the original account holder (like a parent or spouse), your IRA is now an inherited IRA. Also, known as a beneficiary IRA, these accounts have special rules regarding handling and processing.

Your inherited IRA could be either a Traditional or Roth account as well as a beneficiary IRA (depending on the original account), so be sure to keep those tax implications in mind for future planning. If you're unsure what type of account you hold, check with your IRA Custodian.

If you've inherited an IRA, you can use it to invest in real estate while still in the IRA— you don't have to distribute it. You just must follow some specific rules for beneficiary IRAs.

Opening a Beneficiary IRA

The process for opening a Beneficiary IRA is the same as any IRA, but in addition to the new account application and other paperwork we need a certified copy of the death certificate for the IRA account holder. We'll return the death certificate once we have verified its legitimacy. The Beneficiary IRA is also titled differently than a typical IRA, with the deceased account holder's name also listed on the Beneficiary IRA.

> **For example:**
> IRAR Trust Co. FBO Jane Does as beneficiary of John Doe

Even though the account titling is different and a death certificate is required, we don't charge extra for a Beneficiary IRA— all fees are the same. Find more information on our fees here.

Note

If you're attempting to move the funds to another retirement account, no account application is needed.

The Differences Between Spouse and Non-Spouse Beneficiary IRAs

The options a beneficiary has changes depending on who is inheriting the IRA. The biggest difference is if the beneficiary is a spouse— the spouse can treat the inherited accounts as if they were his or her own. This means the spouse can transfer the assets into their own existing or new IRA. The money is available to them at any time, to be treated as if it were the spouses' own. This includes if the money is taken out (distributed) before the spouse is 59 ½ for an inherited Traditional IRA— though this is still considered an early withdrawal and the penalty will apply.

Both spouse and non-spouse beneficiaries inheriting an IRA (where the account holder was under 70 ½ and not yet taking Required Minimum Distributions) have the following options:

Open a Beneficiary IRA (Life Expectancy Method)

Distributions must begin no later than December 31st of the year the account holder would have reached 70 ½, with the annual distributions spread over the beneficiary's life expectancy.

If there are multiple beneficiaries, separate accounts for each beneficiary must be established by December 31st of the year following the year of death.

Open a Beneficiary IRA (5-Year Method)

With this method, all funds need to leave the account within 5 years from the death of the account holder. The money is available at any time, up until December 31st of the fifth year after the year in which the account holder died.

You will be taxed on each distribution, but you will not have to pay the 10% early withdrawal penalty.

Lump Sum Distribution (Beneficiary Doesn't Open an Inherited IRA)

All the assets the IRA owned are taken out immediately.

You will be taxed on the distribution, but you will not have to pay the 10% early withdrawal penalty.

If the account holder was older than 70 ½ at their time of death, the 5-year method is not an option for the spouse or non-spouse beneficiary. The remaining options would still apply.

The spouse and non-spouse beneficiary have different options when it comes to moving the inherited IRA funds. Non-spouse beneficiaries need to transfer directly from one account to another, or from one IRA custodian to another. Unlike the spouse beneficiary, the non-spouse beneficiary doesn't have the option for a distribution or a 60-day rollover when inheriting IRA assets. If a non-spouse beneficiary takes a distribution (assets or a check), not only is the distribution taxed as ordinary income, it is ineligible to be rolled into the Beneficiary IRA it was originally taken from or one at another firm. A non-spouse beneficiary can NEVER do a 60-day rollover of Beneficiary IRA funds.

If you inherit IRAs from different owners, you cannot combine them into a single inherited IRA because of the titling requirements mentioned above. If you have inherited multiple IRAs (of the same account type) from the same original owner, you can combine them.

For example:
If a beneficiary inherited two IRAs from their Mom (a non-spouse beneficiary), they can be combined into one beneficiary IRA. If at some later point, the same beneficiary inherits an IRA from their Dad (who had also inherited an IRA from Mom), this IRA comes from Dad, not Mom. It cannot be combined with those previous two IRAs inherited, even though they were all Mom's IRAs at one point.

The main reason for this is that the Required Minimum Distributions (RMDs) on the inherited accounts will be calculated differently. RMDs on accounts that are inherited directly are generally based on the beneficiary's age in the year after the account owner's death.

Taxes Due When Distributing Inherited IRAs

Whether or not you'll owe taxes on an inherited IRA depends on the type of account you have inherited. With an Inherited Traditional IRA, you will pay taxes on any distributions they take. With an Inherited Roth IRA, you won't owe taxes on distributions if the account had been open for five years before the original account owner's death, just like a regular Roth IRA. A Beneficiary IRA maintains the tax advantages (traditional or Roth) of the original account.

IRA Tax Deductions

For Traditional IRAs, depending on your income and eligibility, your contributions may qualify as a deduction on your federal income tax return. If you or your spouse are covered by a retirement plan at work and your income exceeds certain levels, your deduction may be limited. But if you are not covered by a plan at work, your deduction may be fully allowed. See IRS IRA Deduction Limits for more information.

Unfortunately, you cannot get a tax deduction for contributions to a Roth IRA, but remember that earnings and withdrawals are generally tax free. This is one of the tradeoffs with opening a Roth IRA.

Both SEP and SIMPLE IRAs are also tax-deferred. That means up-front tax breaks and tax-deferred savings, so you (and your employees) don't pay taxes until the money is withdrawn during retirement.

Excess IRA Contributions & Penalties

If you contribute more than the limit or are over 70 ½ years of age and contribute to a Traditional IRA, you're subject to tax penalties. To avoid excess contribution penalties, withdraw the excess contribution from your IRA before the tax deadline (along with any income earned on the excess contribution). You must complete Form 5329, which you'll use to calculate a 6% penalty tax on the excess contribution. This penalty tax will continue to be assessed every year on ALL excess contributions until you withdraw the excess contributions and all income earned based on those excess contributions. But first, talk to a tax professional about your situation— they may be able to help.

TAX-DEFERRED SAVINGS:

That means up-front tax breaks (with no taxes on contributions or income from assets until they're distributed)

In a Nutshell

As you can see, the type of IRA you open does make a difference. There are tax implications and different contribution limits for you and your employees, depending on the account.

Have any questions? IRAR is ready to assist.

For any tax or legal concerns, please consult an outside advisor.

READY FOR THE NEXT CHAPTER?

CHAPTER 5:

How to Open Your Real Estate IRA

CHAPTER 5

HOW TO OPEN YOUR SELF-DIRECTED IRA TO INVEST IN REAL ESTATE

Ready to officially open your self-directed IRA? It's not hard— and we're here to help if you have questions. This chapter outlines what you'll need to open your self-directed IRA with IRAR in order to buy real estate. We'll also provide tips to streamline the process from the team that will open your account.

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Introduction

Once you've identified the right retirement account for your investment strategy, you'll need to open a self-directed IRA with IRAR, the process is easy. See the previous chapter for more details on accounts.

If you already have a retirement account and you want to move to a self-directed IRA, we cover how to do that in the next chapter, "Funding Your Self-Directed IRA". If you need additional assistance, we'll be glad to help.

NOTE: You need to be careful about opening the right kind of IRA for your existing account. Certain accounts have special rules about what, how, and when transfers can occur between accounts.

NOTE:

You need to be careful about opening the right kind of IRA for your existing account. Certain accounts have special rules. See page 3.

Account Types

What type of retirement account you open makes a difference. They come with different rules and restrictions, so it's important to make the right choice for your types of investments. See the previous chapter, Self-Directed IRA Account Types, for in-depth information on each type of self-directed IRA.

The accounts offered at IRAR are:

- Traditional IRA
- SEP IRA
- Roth IRA
- SIMPLE IRA

Each account has slightly different rules, deadlines, and contribution limits. The type of IRA you have impacts how you file your taxes, whether you can deduct your contributions, and if you have to start taking Required Minimum Distributions (RMD). So, keep that in mind when opening your self-directed IRA.

Restrictions When Moving Retirement Funds Between Account Types

Not only does each type of account have its own rules, but retirement accounts have rules about what accounts they can transfer into.

For example, the two most common types of IRAs—Roth and Traditional—can't transfer into one another. A Roth IRA must transfer to a Roth IRA, and a Traditional IRA must transfer to a Traditional IRA (unless you're doing a Roth Conversion).

So, you can see why it's important to make sure you're opening the right account before you start. If you're unsure what type of account you have, we recommend talking to the financial institution where you have your account. If you don't have an account, talk to a financial professional that can assess your tax situation.

This chart shows the IRS compatibility and portability rules for moving retirement accounts:

ROLLOVER CHART

		Roll To							
		Roth IRA	Traditional IRA	SIMPLE IRA	SEP-IRA	Governmental 457(b)	Qualified Plan[1] (pre-tax)	403(b) (pre-tax)	Designated Roth Account (401(k), 403(b) or 457(b))
Roll From	Roth IRA	Yes[2]	No	No	No	No	No	No	No
	Traditional IRA	Yes[3]	Yes[2]	Yes[2, 7], after two years	Yes[2]	Yes[4]	Yes	Yes	No
	SIMPLE IRA	Yes[3], after two years	Yes[2], after two years	Yes[2]	Yes[2], after two years	Yes[4], after two years	Yes, after two years	Yes, after two years	No
	SEP-IRA	Yes[3]	Yes[2]	Yes[2, 7], after two years	Yes[2]	Yes[4]	Yes	Yes	No
	Governmental 457(b)	Yes[3]	Yes	Yes[7], after two years	Yes	Yes	Yes	Yes	Yes[3,5]
	Qualified Plan[1] (pre-tax)	Yes[3]	Yes	Yes[7], after two years`	Yes	Yes[4]	Yes	Yes	Yes[3,5]
	403(b) (pre-tax)	Yes[3]	Yes	Yes[7], after two years	Yes	Yes[4]	Yes	Yes	Yes[3,5]
	Designated Roth Account (401(k), 403(b) or 457(b))	Yes	No	No	No	No	No	No	Yes[6]

[1]Qualified plans include, for example, profit-sharing, 401(k), money purchase, and defined benefit plans.
[2] Only one rollover in any 12-month period.
[3]Must include in income.
[4]Must have separate accounts.
[5]Must be an in-plan rollover.
[6]Any nontaxable amounts distributed must be rolled over by direct trustee-to-trustee transfer.
[7]Applies to rollover contributions after December 18, 2015. For more information regarding retirement plans and rollovers, visit Tax Information for Retirement Plans.

TIP:

If you are a real estate investor, make sure to open the self-directed IRA as soon as possible to avoid missing out on a deal.

How to Open Your Self-Directed IRA

To open an IRAR Trust Company self-directed account, you need to complete, sign, and submit an **Account Application**.

We'll need you to provide a copy of your government-issued, non-expired identification (like a driver's license or passport). The copy must be legible, show a clear photo and your signature. If your signature is on the back of the ID or driver's license, we require a copy of the back as well. If the address on your ID is not current, you can attach a copy of a current utility bill to verify residency.

Be sure to include accurate and up-to-date information at every step of the application, or there may be delays in opening your account.

Required Documents

- IRAR Account Application
- Copy of Government-Issued ID

Account Application Tips

When filling out your application, make sure all the information is correct and the application is complete. We ask for this information because we need it. Although it may seem like some of these options, such as sections for payment of fees or your beneficiaries, don't seem like they can have a big impact, they can. Think over each choice carefully, and make sure it fits with your financial and retirement goals.

Signature & Acknowledgements

One of the biggest things that holds up new account applications is the application signature. We can't process the application without your signature.

Through your signature, you acknowledge and agree that:

- You're appointing IRAR as custodian for your IRA
    - The account is a "self-directed" account, and IRAR is acting under your direction. You are responsible for conducting due diligence on the investments and making investment decisions.
    - IRAR is acting solely as a passive custodian (not as an advisor or investment provider) and is not a fiduciary to your IRA.
- You're taking responsibility for any tax liabilities related to contributions to, transactions with, and distributions from your IRA.
    - Since your IRA is self-directed, you need to be aware of the tax consequences of your retirement directives.
- You're promising you are who you say you are and the social security number on your application is your valid social security number.
- You're acknowledging the assets you're investing in are not prohibited.
- You're agreeing to pay for any services or requests as listed in the fee schedule prior to IRAR completing the task or service.
- Lastly, you're assuring us that the information on your application is true and accurate to the best of your knowledge.

We need you to acknowledge this with your signature and date, or else we can't open your account.

Email Address

You'll also need an email address to open your account. This is required.

Each applicant must have his or her own email address. If the email address on your application is already being used for another account, we'll need a different email address to open the account. If you don't have one or you share an email address, there are many free resources online to create a personalized address.

However, if you have more than one IRA (for example, if you have both a Roth and a Traditional IRA), the same email may be used for both.

We understand that sometimes spouses share an email address. However, most software systems use email as an individual identifier, and IRAR's systems work this way too. Sharing an email address can cause issues with accessing your account online or receiving communication about your IRA. Even if you use a shared account for day-to-day use, we highly recommend that you have your own for account security purposes.

Fee Disclosure

This fee disclosure is included in your application kit and outlines the costs for your self-directed IRA. Read this agreement fully, as it applies to all charges on your account. By signing and submitting your account application, you are agreeing to pay these fees in a timely manner. You're also telling us how you want us to charge the fees (either through a provided credit card or directly from the account).

Beneficiaries

When opening your account, you aren't required to designate any beneficiaries, but we will notify you if you haven't. It won't delay the opening of your account if you don't fill out this section of your application, but we do have to let you know. You can update or add this information at any time by filling out a Beneficiary Designation Form.

Even if you already have a will or trust, it's worth it to set up your IRA beneficiaries officially. This way you're ensuring your intended heirs are inheriting as soon as possible (so the IRA isn't stuck in probate) and you're giving them an additional option to use these savings in their tax-advantaged state.

Consider filling out the paperwork. It only takes a moment.

TIP:

Save more in your IRA! Pay your IRAR fees with a credit card (instead of deducting them from your IRA).

You're limited in how much you can contribute to your retirement account, and once the funds are out of the account, they can't go back. Keep this in mind when deciding how to pay the fees for your IRA.

Government-Issued Identification

We need a copy of your government-issued identification front and back, to open your account. Make sure it's fully legible, including a clear picture with a visible signature. The address needs to match your account application. If your current address is different than your identification, we'll need a copy of a recent utility bill showing your current address.

Examples of Acceptable Identification:

- A Personal or Commercial Driver's License
- A Government-Issued State Identification Card
- A Government-Issued Passport

In a Nutshell

The process to open a self-directed IRA with IRAR is simple. Just be sure to complete each portion of your application fully and accurately. Be sure to open the account with a unique email address, note how you want your fees paid, and sign your paperwork as required. If you have any questions along the way, we'd be happy to help. Just give one of our Certified IRA Specialist Professionals (CISP) a call or email.

Have any questions? IRAR is ready to assist.

For any tax or legal concerns, please consult a financial advisor.


CHAPTER 6

FUNDING YOUR SELF-DIRECTED IRA

If you've already been saving for retirement, or if you've been in the workforce a few years, you probably have an existing retirement fund somewhere. You can move that money to a self-directed IRA to invest in real estate. Even if you don't have existing savings, it's still not too late to start. You can start contributing and investing right away.

READY FOR THE NEXT CHAPTER?

CHAPTER 6:

Funding Your Self-Directed IRA

CHAPTER 6

FUNDING YOUR SELF-DIRECTED IRA

Ready to fund your new self-directed IRA? We'll walk you through the process from start to finish. This chapter gives you the information you need to fund your self-directed account quickly and easily, so you can start building the retirement of your dreams.

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Introduction

If you've already been saving for retirement, or if you've been in the workforce a few years, you probably have an existing retirement fund somewhere. You can move that money to a self-directed IRA to invest in real estate. Even if you don't have existing savings, it's still not too late to start. You can start contributing and investing right away.

At IRAR, we make the process as simple as possible, but you must follow IRS guidelines to do it right. Here's the information you need to do just that— all without breaking a sweat.

In order to start investing with a self-directed retirement account, you need to get funds into your new self-directed IRA.

There are three ways to do that:

- **Contributions**
- **Transfers**
- **Rollovers**

Contributions let you put your personal funds into your IRA, within certain limits, either pre- or post- tax, depending on the type of account. If you don't already have retirement savings or want to add more, contributions are how you'll get money into your self-directed IRA. We covered this in more detail in chapter 4, Self-Directed IRA Account Types.

Transfers and **Rollovers** are how you move funds from existing retirement accounts into a self-directed IRA. We'll cover these methods in this chapter.

If you've changed jobs or retired already, chances are you have savings in an old employer retirement plan like a 401(k), 403(b), or governmental 457(b). Maybe you're already saving on your own at another big-name retirement firm.

No matter how you're saving, you can move those existing funds to a self-directed IRA and invest in real estate! There's no penalty.

NOTE:

If you're currently employed and your current retirement plan is with your employer, you may not be able to move it to a self-directed IRA. Active plans don't typically allow funds to leave during the tenure of your employment. However, it never hurts to ask your plan administrator. If you can move your funds, you're able to invest in almost anything imaginable (with the exception of prohibited transactions and investments, see IRC 4975 and our previous chapter for more details).

IRA Contributions

If you're still working, make sure you're taking full advantage of the opportunity to save for your retirement by contributing to an IRA. You can make contributions all year, as long as you don't exceed the amount allowed by the IRS, see below.

Consider contributing to your self-directed IRA if you:

- want to continue to build wealth in your self-directed IRA
- want to make more alternative investments
- need liquidity/cash in your account to cover IRA expenses and don't want to liquidate assets
- want to get a tax-deduction (if you qualify)
- want to increase the possibility of early retirement

There are many more reasons why you should consider contributing, these are just a few most cited by our clients.

We go over these limits in more detail in chapter 4, Self-Directed IRA Account Types, but you can also check out our contribution page for the most up-to-date information on IRS limits and restrictions.

Transfers

A **transfer** is when you move your IRA funds directly from one custodian to another. It's the most common and basic way to move your retirement account. It's hands off for the investor, and you don't see the money at all. Your old custodian sends it directly to your new custodian.

For example: If you had an IRA at Fidelity and wanted to move it to IRAR, a transfer is the easiest way to do that. Fidelity sends your funds directly from your account with them to your new self-directed IRA at IRAR.

Unlike rollovers (discussed later in this chapter), transfers are non-reportable events, meaning they aren't reported to the IRS and have no limits on the number or frequency. In one year, you can do as many transfers as you want, as often as you want.

Transfer to Compatible Types

However, when transferring your IRA, it's important to keep in mind the type of account you already have. Certain accounts have restrictions about which type of account they can transfer into.

One of the restrictions involves Roth IRAs. If you already have a Roth IRA, you'll need to open a Roth IRA at IRAR (or else we can't deposit your funds). If you have a Traditional IRA, you could open and transfer into a Traditional OR into a SEP or even a SIMPLE if you meet the criteria. There are major penalties and headaches if you get this part wrong.

If you'd like more information on what types of plans can transfer into which accounts, you can find more information at our Self Directed IRA Accounts page.

Roth Conversions

If you have savings in a non-Roth IRA and you'd like to move them into a Roth, you can do a Roth Conversion. This is discussed in more detail at the end of the chapter.

ROLLOVER CHART

		Roll To							
		Roth IRA	Traditional IRA	SIMPLE IRA	SEP-IRA	Governmental 457(b)	Qualified Plan[1] (pre-tax)	403(b) (pre-tax)	Designated Roth Account (401(k), 403(b) or 457(b))
Roll From	Roth IRA	Yes[2]	No	No	No	No	No	No	No
	Traditional IRA	Yes[3]	Yes[2]	Yes[2, 7], after two years	Yes[2]	Yes[4]	Yes	Yes	No
	SIMPLE IRA	Yes[3], after two years	Yes[2], after two years	Yes[2]	Yes[2], after two years	Yes[4], after two years	Yes, after two years	Yes, after two years	No
	SEP-IRA	Yes[3]	Yes[2]	Yes[2, 7], after two years	Yes[2]	Yes[4]	Yes	Yes	No
	Governmental 457(b)	Yes[3]	Yes	Yes[7], after two years	Yes	Yes	Yes	Yes	Yes[3,5]
	Qualified Plan[1] (pre-tax)	Yes[3]	Yes	Yes[7], after two years`	Yes	Yes[4]	Yes	Yes	Yes[3,5]
	403(b) (pre-tax)	Yes[3]	Yes	Yes[7], after two years	Yes	Yes[4]	Yes	Yes	Yes[3,5]
	Designated Roth Account (401(k), 403(b) or 457(b))	Yes	No	No	No	No	No	No	Yes[6]

[1]Qualified plans include, for example, profit-sharing, 401(k), money purchase, and defined benefit plans.
[2] Only one rollover in any 12-month period.
[3]Must include in income.
[4]Must have separate accounts.
[5]Must be an in-plan rollover.
[6]Any nontaxable amounts distributed must be rolled over by direct trustee-to-trustee transfer.
[7]Applies to rollover contributions after December 18, 2015. For more information regarding retirement plans and rollovers, visit Tax Information for Retirement Plans.

*This chart also applies to IRA transfers. Take account type into consideration when transferring retirement funds, especially between providers.

The Process: Transfer to a Self-Directed IRA

Once you're ready to transfer your funds, start the transfer process by completing and submitting an IRAR Transfer Form. You will also need to submit an account statement from your previous custodian dated within the last six months.

TIP:

To speed up the process, you can submit your transfer form with your account application. That way, the team can start working on your transfer as soon as we've opened your new account.

We can't send the transfer of funds request to your existing custodian until your new account has been established at IRAR, so don't wait on that part. If there's a delay with your new account, there will be a delay with your transfer.

To transfer your account to IRAR, we need:

- An established new account at IRAR
- An Account Transfer Form
- A copy of your most recent account statement from your current custodian

The paperwork is the same whether you're transferring cash, other assets, or both. As soon as we have all the paperwork, we'll send the request to your current custodian. Check with them directly to see if they accept fax transfer requests— this can significantly speed up processing.

Sometimes after we submit your request to your custodian, we may not hear from them at all. We will notify you via email if we haven't heard from them.

We do our best to keep track of pending transfers, but you'll have to follow up with your custodian directly to figure out why they haven't moved your assets. We can't do this for you. Your previous custodian generally **won't** give us any information on the status of your transfer since we aren't the owner of the account— you are. If we hear anything from them regarding your account, we will pass it along to you, but it's up to you to follow up with them directly to inquire about any holdups.

Transfer Instructions and Terminology

As you complete the transfer form you may come across terms you are not familiar with. It's important to know these terms because this is how you will indicate the type of transfer you want to conduct. Here are some of the most common terms and what they mean:

Full Transfer Requests

A full transfer is when you want to move your entire account to IRAR in cash. It's a pretty straightforward process: Fill out a transfer form, include a recent account statement from the account being transferred, and submit. Your funds should arrive within a couple of weeks.

If you currently hold any *non-cash assets* in your account and want to transfer them as cash, you need to fully liquidate them before you submit your request to IRAR. If not, your current custodian will reject the transfer and you'll have to start the process over again (this includes Brokerage IRAs). If you're looking to transfer both cash and assets without liquidating, you'll want to do a full transfer in-kind.

Full Transfer of Assets In-Kind Requests

If you're transferring your entire account without liquidating any assets, that's called a full transfer of assets in-kind. In-kind in this situation means "without change". The assets are transferred as-is to your new self-directed IRA.

Deeded assets like real estate will need to be reregistered in the name of your new IRA. IRAR doesn't create deeds or reregister assets for you, but there are many resources online and plenty of companies willing to walk you through the process. Some will even file the updated deed with the county for you.

Reregistering Your Real Estate

Until your deed is reregistered with the county, as far as they know it's still owned by your old IRA. Sometimes investors skip this step, and it can make selling or distributing the asset down the line a major pain, so don't forget to reregister your deed.

When transferring deeded assets like real estate from one of your retirement accounts to another, the quickest and easiest way to do this is through a Quitclaim Deed (similar to transferring between individuals, since your IRA is the previous owner). There are ways to draft this up yourself, but services exist to assist as well. A warranty or Grant Deed is also acceptable but are typically more complicated and time-consuming to draft.

Be sure to have the new asset correctly vested in the name of your IRA and filed with the appropriate offices. So, the new deed would show: **IRAR Trust FBO Client Name and New IRA Account Number.** Once created, you'll need to file this with the county. Additional paperwork may be needed, depending on the county. Call your local office to confirm you are complying with all requirements.

Medallion Signature Guarantee

When transferring your account, your current custodian may ask you to get a Medallion Signature Guarantee. A Medallion Signature Guarantee is an authorized signature that guarantees securities and is used to protect against fraud. However, some custodians have started asking for medallion guarantees on transfers for non-securities and even cash (though this is not required or technically how the medallion is intended to be used).

IRAR doesn't require medallion signatures, except on securities. Check with your custodian to see if they'll require a medallion signature on your assets.

NOTE:

A Notary Public is not the same thing as a Medallion Guarantee and cannot be used in place of one when required.

Partial Transfer Requests

If you don't want to transfer your entire IRA to IRAR, you don't have to. You can transfer some of your cash and/or assets and leave the rest at your old custodian. Since there are no limits on the number of transfers, you can do it as many times as you'd like. If you need more funds later, you can repeat the transfer process at that time. Keep in mind that there may be fees associated with movement of funds or assets from your custodian to IRAR.

The process for a partial transfer is very similar to a full transfer, **except** you'll need to list and detail the assets you're intending to transfer explicitly instead of just including an account statement. If you're only transferring cash, list the amount in the space provided. If transferring some assets in-kind, list them specifically and fill out all information. If transferring real estate, you'll need to reregister your assets the same way you would for a full transfer in-kind.

For example: Say you have an IRA at another retirement provider that holds two real estate assets, cash, and some stock. If you wanted to transfer the real estate to IRAR but leave the rest of the assets at your current provider, you can. Just be sure to spell out which assets are moving to IRAR on your transfer form.

Once we have submitted the paperwork to your current custodian, we will wait for your custodian to assign ownership of your assets to your new IRA. Once they do, we'll "book", or deposit, them into your account.

Rollovers

IRA Rollovers are the movement of funds and/or assets to a new IRA at a different institution, generally from an employer sponsored plan like a 401(k). Sometimes called “rollover IRAs” when moving funds from a qualified plan to an IRA, they differ from transfers in a few ways.

Unlike transfers, this movement of funds is reportable to the IRS (both when it exits and reenters a retirement account). But don’t worry— as long as your funds go back into another retirement account in a timely manner, you won’t have any taxes or penalties.

Types of Rollovers

There are two basic types of rollovers, as defined by the IRS: **direct rollovers** and **indirect rollovers**.

The main difference between these two methods is how the funds arrive at your new custodian— either directly from your custodian’s bank like a transfer, or from funds distributed and deposited back into your IRA by you.

To initiate a rollover, you need to complete your provider’s forms to get the funds out of the account. You will also need to complete an IRAR Rollover Certificate Form to let us know from where and when the funds will be sent.

Direct Rollover

A **direct rollover** is when you move your funds directly from a previous employer-sponsored plan (like a 401(k), 403(b), 457(b), PS, MP, or DB plan) or an existing IRA to your new self-directed IRA at IRAR. In other words, a "direct rollover" is a movement of funds from one institution to another where the funds were sent via wire or by check made payable to your self-directed IRA. Usually, distributions from an employer-sponsored plan are subject to a mandatory 20% tax withholding, but a direct rollover avoids withholding.

If moving from an old employer's plan, there's no limit on the number of direct rollovers— so if you have multiple employer plans from old jobs, you can roll them all into one IRA. Direct rollovers are very common when switching jobs, sometimes without employees realizing that's what they're doing. If you've ever left a job and moved your old employer plan to your new plan, you did a direct rollover— and you didn't even know it! That's how easy it can be.

Direct rollovers are sometimes called a trustee-to-trustee rollover. They are a lot like an IRA transfer but with one main difference: Rollovers *are* reported to the IRS, both when the funds leave your account AND when they reenter the new account. This is how they know not to tax you— they see the funds leave and then they see them go into another account.

Indirect Rollover

An **indirect rollover** is when you rollover funds from one retirement account to another by distributing them to yourself and depositing them (rolling them back) into another retirement account within 60-days. You're taking possession of the funds personally, but they need to get back into a retirement account before the 60 days are up or else the funds will be taxed (and may be subject to penalties) as a distribution. These are often called 60-day rollovers because of this deadline. After the deadline, these funds would then be ineligible to be deposited back into a retirement account.

> **For example:** Say you take a distribution of $50,000 and deposit it into a personal bank account. Before the 60 days are up, you need to deposit the funds into a new (or back into the old) retirement account, otherwise those funds will be considered a distribution and subject to income tax and penalties.
>
> If you don't deposit that $50,000 (or only deposit part of it) into a retirement account before 60 days from the date you received the funds from your retirement account (not the day the funds leave the retirement account), it will be treated as a distribution. You'll owe income taxes on those funds (unless you have a Roth IRA— then only the gains may be taxable) and potentially be hit with an early distribution penalty, depending on whether the other required conditions are met.

REMEMBER:

To avoid being taxed, you must roll these funds back into a retirement account before the 60-day deadline.

With an indirect rollover from a 401(k) plan, taxes will be withheld before you get the check, since it's being treated as a distribution. This is important to keep in mind when calculating how much you will have in your account for the real estate purchase. If the check is addressed to your new custodian but delivered to you as the intermediary, it is treated as a direct rollover and no taxes are withheld.

Be sure to open your IRA *first*, before starting this process. See previous chapter.

NOTE:

For both a 60-Day rollover and a direct rollover to IRAR, you **must** initiate the process with your current custodian or plan administrator. You will need to complete their paperwork providing instructions on sending your funds or assets to IRAR.

IRS Reporting

No matter the type of rollover (as long as the value is over $10), your old custodian will send you and the IRS a form 1099R and IRAR (your new custodian) will send you and the IRS a form 5498. This shows the IRS that funds left a retirement account (1099R) and returned to a retirement account (5498). Keep these forms for your records and verify all information is accurate. If you notice any issues or errors, reach out to the issuing custodian to make a correction. If taxes have already been filed, you can file a correction directly with the IRS. Please keep in mind the filing requirements and timing for these forms are different. 1099R's are sent in January, and 5498's are sent in May.

One-Rollover-Per-Year Rule/Limits on Rollovers

Starting in 2015, you're allowed to make only one rollover from an IRA to another (or the same) IRA in any 12-month period, no matter how many IRAs you have. If you've already rolled over funds within that 12-month period, unfortunately you'll have to wait (or choose a different method), regardless of which account is rolling over the funds.

As stated before, in the case of a direct rollover from a retirement plan administrator to a self-directed IRA custodian, this does not apply.

The Process: Rollover Your IRA or Qualified Employer Plan

The process for a rollover to IRAR Trust Company is the same whether you're completing a direct or indirect rollover from either an IRA or a qualified plan. Most importantly, you'll need to have an established account with us and complete our Rollover Certification Form.

Be sure to open your account first, before starting the rollover process, so we have somewhere to deposit your funds when they arrive from your previous custodian. If you need more information on how to open an account with IRAR, see Chapter 5, *How to Open Your Self-Directed IRA for Real Estate Investments* for more details.

At IRAR there is a $30 fee to accept funds via wire, otherwise there is no charge for processing a rollover. However, if submitted via check there is a 5-business day hold before the money can be used. If doing an indirect (or 60-day) rollover, you'll need to get those funds to us within the 60-day window, or else your funds are not eligible to be rolled over and are considered a distribution, meaning you'll owe the IRS taxes (and possibly penalties) on the amount withdrawn.

Start Rollover with Your Previous Custodian

To move your funds to IRAR via rollover, you must have an established IRAR account. Then, contact your current custodian and fill out *their* forms. You submit those forms to them, and we wait for the funds to arrive. Be sure to reference your name and IRAR account number on the rollover being sent to us, so we know how to apply the deposit when it arrives.

NOTE:

Sometimes there are delays with your previous custodian, and generally IRAR is not notified of these delays. It's recommended you check in with your previous custodian after 2-4 weeks if your funds have not been deposited to your IRAR account.

All-Cash Rollovers

Rolling over your entire account in cash is called an "All-Cash Rollover". If you currently hold assets in your account but want to roll them over as cash, you'll need to liquidate those assets with your previous custodian before submitting the all-cash rollover request. This applies to Brokerage IRAs as well, which also must be liquidated if rolling over as cash. You must initiate this with your custodian, IRAR can't do it for you since you are the account owner and your

In-Kind Rollovers

If you want to rollover the assets in-kind, there is a little bit more that must be done. Like a transfer, the assets will be put into the name of the new IRA ("IRAR Trust FBO: client name IRA") and then officially booked into the account. Most of this is done behind the scenes, but if your IRA holds real estate or other deeded assets, you'll have to do some of this yourself.

Real estate and similar assets will need to be rerecorded with the county vested in the new account name. You (or someone you hire) will need to draft and file a quitclaim or warranty deed with the County Recorder's Office located in the county where the property is held. Typically, investors use a quitclaim deed during this process, but either is acceptable.

If you have any other questions about your assets or the process involved in moving them to IRAR Trust Company, please feel free to ask one of our qualified representatives— we'd be happy to help.

Differences Between Transfers and Rollovers

Now for the big questions: Why would someone pick a transfer or a rollover? How do you decide which is the right choice for moving your retirement fund?

It depends on your current plan, the account you want to open, and what you plan on doing with your funds once they arrive.

Transfers

Generally used to move IRAs (Traditional, Roth, SEP, and SIMPLE) from your current provider.

Pros:	Unlimited number allowed per year, not reportable to the IRS. Easy process that is mostly out of your hands.
Cons:	Generally slower, and you can end up waiting on your old custodian to move your money on their timeline.

Rollovers

Generally used to move qualified plans (such as 401(k), 403(b), 457(b), MP, or DB) from your current provider.

Pros:	Usually faster than a transfer, which can be good if you're in a rush. You also get the option of holding the funds for 60 days (if taking an indirect rollover) before rolling them back into an IRA.
Cons:	You can only take one indirect rollover from an IRA per 12-month period, and you can only hold your funds for 60 days. If you don't get those funds back into your account within the time limit, you can end up paying taxes (and possibly penalties) on your funds. If moving a qualified plan, a mandatory tax withholding will occur for indirect rollovers.

Either option could be the right choice, depending on your investment strategy and account type. IRAR can't make that decision for you. But if you know the differences before you start, you can make an informed decision every step of the way. As always, we recommend consulting with a financial professional before making any major investment decision. Feel free to contact us if you have any questions.

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Timeline

Moving the funds from your current custodian to IRAR Trust Company can take some time, depending on the custodian and the liquidity of your assets, so it's best to start moving funds as soon as you can. You want to make sure that your IRAR account is funded before you make an offer to buy real estate. That way you ensure there are no delays during the purchase process. It can be as fast as two days or as long as two weeks before your funds arrive, depending on your previous custodian. Keep that in mind when planning your investments and give yourself extra time in case of delays you can't control.

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Roth Conversions

If you're moving funds from a non-Roth account to a Roth, you'd do this through a Roth conversion. If currently held at another custodian, you'll need to first move your account to IRAR with one of the above methods. The same rules and restrictions apply as with a transfer or rollover. You can submit all your forms together for faster processing.

As referenced briefly in the last chapter, a Roth conversion is the process where you convert cash and assets from a non-Roth account and move them into a Roth IRA, paying the associated taxes you would have if contributing to the Roth account initially. If you have funds or assets in a non-Roth IRA (Traditional, SIMPLE, SEP) and want them in a Roth, this is how you'd get them there.

Because of income limitations, you may not have been able to open a Roth account with a contribution. Doing a Roth conversion is a way to open a Roth despite the income restrictions. This is also sometimes called a "backdoor Roth IRA" since you are getting assets in a Roth even if you don't meet the eligibility requirements to contribute. The conversions don't count against your yearly contribution limits, so you'd still be able to contribute as normal (if eligible), no matter how much you've converted, and there are no limits to the number of conversions you can do.

The Roth Conversion Process: Moving Your Non-Roth Assets to a Roth IRA

If you're looking to convert your self-directed IRA to a Roth, first you need to move the account to IRAR. Once all your assets have arrived, we can start the process.

To begin the conversion process, we need a few things:

- A completed IRAR Roth Conversion form
- A completed IRAR Account Application (if opening a new Roth IRA)
- A completed Fair Market Valuation form for each asset being converted (if applicable)

You'll need to fill out IRAR's Roth Conversion form, detailing exactly what you are planning on converting. If you don't already have a Roth IRA at IRAR to move your converted funds to, you'll need to open one, and you'd do that by completing a new account application. Submit that with your conversion form.

You can convert either all or part of your existing retirement account. You'll need to complete a Fair Market Valuation form for every asset you're converting (unless you are just converting cash) and include that with your Roth Conversion form. If converting more than one retirement account, use a separate form for each. With a partial conversion, be sure to detail exactly what you're planning to convert, with cash totals and assets spelled out explicitly in the space provided.

TIP:

If you don't already have a Roth account, make sure your new IRA is open, or that you've completed the account application and submit it with your Roth Conversion form. This is the most commonly missed part of the process. Without this authorization to open an account for you, the process is on hold.

Reregister Assets with New Account Number

When converting non-cash assets, they'll need to be reregistered into the name of your new Roth IRA. This process is basically the same as transferring assets to IRAR. For most assets, this process happens behind the scenes and requires little to no input from you. However, for deeded assets you need to get a little more involved. These must be reregistered with the county where the asset is located.

The quickest and easiest way to do this is with a quitclaim deed, since you're moving the assets between accounts owned by you, but you could also use a warranty or grant deed if desired. Then you must file the updated deed with the county. There may be other requirements, depending on the specific county your property is in. We recommend reaching out to the relevant office directly and confirming any requirements.

Federal Tax Withholding

The IRS requires IRAR to withhold 10% of the funds being converted to a Roth IRA, unless you tell us to do otherwise. You can also have IRAR withhold more than 10% for tax purposes, if you anticipate a need to do so.

If you choose not to withhold federal taxes, there can be tax implications. If you don't withhold, then pay the taxes owed with personal funds and withdraw funds from the traditional IRA to pay the conversion tax, you could be subject to penalty. Funds used to pay the conversion tax are not actually converted to the Roth, so they will be subject to the 10% penalty if you are under 59.5, in addition to income tax. The IRS will see this as an early distribution.

If nothing is indicated, IRAR will default to withholding 10%.

State Tax Withholding

We can also withhold state taxes[1] for residents of the state of California. If nothing is indicated, we default to no withholdings.

If you don't live in the state of California, IRAR won't withhold state taxes from your conversion. We recommend consulting a tax professional to determine any additional tax obligations.

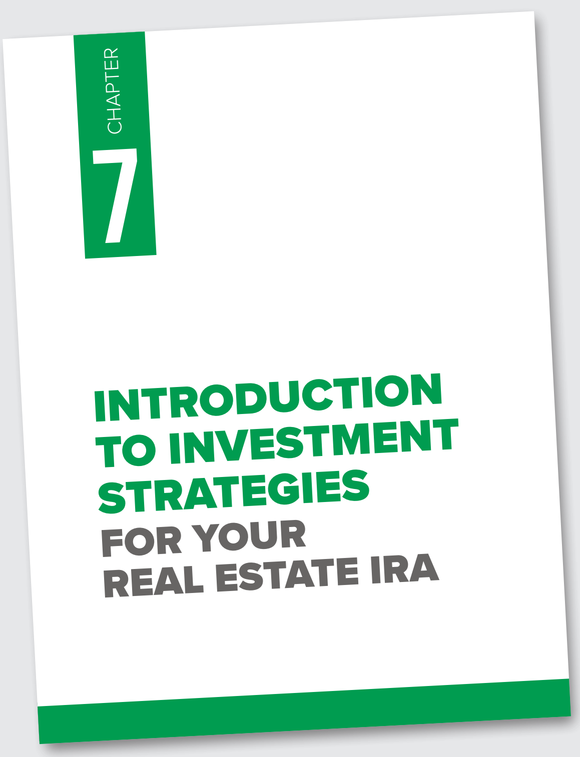
[1] IRAR can only withhold taxes from cash assets held in your self-directed IRA. If your IRA holds only non-cash assets, with can't make these withholdings for you.

In a Nutshell

To invest with a self-directed IRA, you need funds in your account. The fastest way to get them there is to move them from an existing account, either through a transfer or a rollover. If you have non-Roth funds and you want them in a Roth, you can do that too through a conversion. If you don't already have retirement funds—contribute.

Do you have any questions about the how, why, what, or when?

IRAR is here, please reach out. We'd love to help you through the process!



READY FOR THE NEXT CHAPTER?

CHAPTER 7:

Investment Strategies for Your Self-Directed IRA

CHAPTER 7

INTRODUCTION TO INVESTMENT STRATEGIES FOR YOUR REAL ESTATE IRA

Want a sneak peek at the most popular strategies for real estate IRA investors? You'll find them in this chapter. Get the lowdown on the 5 most common methods IRA investors use to buy real estate.

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Introduction

There are more methods and strategies to invest with a self-directed IRA than you could ever imagine, and real estate investors are some of the most creative. You may not even need the full purchase price to make an investment.

Real estate IRA strategies fall into four main categories:

1. **Direct Purchase**
2. **Partnering**
3. **LLC/Checkbook Control**
4. **Non-Recourse Loan/Leveraging**

PLUS: We'll also cover another method of investing in real estate where you don't have to manage the property directly — **mortgage notes**.

Using Multiple Methods

Though each of these methods have their own separate processes, they can be mixed and matched in many, many ways. You aren't limited to just one of them. You can combine your options to maximize your investment capital. You could use an LLC IRA to make a direct purchase, find a partner AND get a non-recourse loan, and more. You aren't limited to just one strategy. Keep that in mind when reading about each method.

Making a Direct Purchase with Your IRA

The most common and straightforward method of buying real estate with a self-directed IRA is through a **direct purchase**. This is when your IRA buys a property using only the money available in your account. Basically, your IRA is making an all-cash purchase of real estate. This is the simplest and quickest way to fund a purchase.

A **direct purchase** is when your IRA buys a property using only the money available in your IRA.

How Does a Direct Purchase Work?

A direct purchase is very similar to a traditional all-cash real estate purchase, except all contracts must be vested in the name of your IRA and signed by IRAR Trust on behalf of your IRA. You also need to be aware of the rules on prohibited transactions and avoid buying from or transacting with any disqualified persons.

It can be helpful to find a realtor familiar with the process. If your agent has any questions, feel free to send them our way. We'd be happy to answer their questions. If you're a real estate professional yourself, you **are** allowed to represent your IRA in a deal. However, you **can't** receive any compensation. Taking a commission is one of several transactions the IRS prohibits because it is a personal benefit to you.

TIP:

To ensure your transaction goes off without a hitch, it's a good idea to open and fund your account as soon as you have an investment in mind.

Due Diligence

As with any real estate investment, it's essential to consider the investment carefully. Research the property, any parties involved in the deal, and your financing before committing any funds. Make sure your investment is legitimate and makes sense for your goals. We recommend consulting with a financial professional before making any major decisions about your retirement strategy.

Income

The most important thing to remember is that all income and expenses for an IRA-owned property must be processed through the IRA. These funds must not mix with personal funds. This can have serious consequences for your IRA. Income must be deposited to your IRA Resources account and not in a personal account, or this can result in a tax penalty.

Expenses

When you invest in real estate, you need to consider the ongoing expenses associated with buying your property. In addition, you need enough cash in the IRA account to cover expenses after the purchase.

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Partnering Your Self-Directed IRA

If you don't have enough funds in your IRA to buy a property outright, does that mean you're out of luck? No! You've got more options for funding, one of which is partnering your IRA with one or more other investors.

How Does Partnering Work?

When you **partner** your IRA, you're combining retirement funds to make an investment (like you would outside of any IRA). You can partner with another investor, another IRA, or even your own personal funds (on a new transaction **only**, more details about this in our partnering chapter).

When partnering, your IRA can invest in real estate without the full purchase price in the IRA, and without taking on debt. Your IRA can even partner with disqualified persons on new transactions. That isn't a prohibited transaction. So, you can combine your retirement savings with your personal funds, your spouse's personal funds or IRA, or anyone else typically not allowed.

After you buy the property, partners need to divide expenses and income based on ownership. So for example, if a husband and wife use their IRAs to partner on a condominium (with each party contributing 50%), then all future income and expenses must be split 50/50. If a utility bill comes in, the wife's IRA is responsible for 50% and the husband's IRA is responsible for the other 50%. If they get $1000 in rent, $500 goes to each IRA. Any emergency repairs, each IRA is responsible for half.

Many IRA investors don't realize they can partner their self-directed IRAs— and in some situations, even with disqualified persons!

This makes it a particularly useful strategy for self-directed investors. Just think of the additional opportunities!

If you have any questions about the partnering process, give us a call. You can even ask your partners to join the call!

Due Diligence When Partnering Your IRA

Make sure to fully vet your partners (as you would any investment, if not more thoroughly), and iron out all the essential details. Determine ownership percentages, payment methods and schedules, and all other details in advance. This can help you avoid difficulties down the line.

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Using an IRA LLC to Gain Checkbook Control

Another method investors often use is called an **IRA LLC** (an LLC with no other members except the IRA). Often called a **single-member LLC** or a **checkbook IRA** (due to the increased control you get over directing IRA funds). This gives you what is known as “checkbook control”— meaning you, the IRA holder, have complete signing power over your retirement funds.

How Does an IRA LLC Work?

Your IRA LLC can operate on its own, with you directing investments, paying expenses, and doing all reporting and recordkeeping yourself. Though you have this added control, the LLC is still owned by the IRA and is still subject to all IRA rules and regulations.

You need to form an LLC owned by your IRA. IRAR doesn’t do this for you, but you can find many resources online that will (or will help you do it yourself). The requirements vary from state to state and county to county, so make sure you’re meeting them for your LLC.

Once established, you’ll establish a business bank account in the name of the LLC—you’ll need a Tax ID Number (EIN), your Articles of Organization, and your Operating Agreement to do this. After the bank account is set up, you’ll direct IRAR to send funds from your IRA to the LLC, where you will have direct control over the funds.

Remember: IRAR does **not** sell or create LLCs. If you want more information about forming an LLC, the IRS website will have more information, as well your local SBA.

Some companies do offer to create and manage an LLC for you, but this isn’t required. These providers often claim you need an IRA LLC for self-directed IRA investing, but that’s not true.

There are three main reasons investors use IRA LLCs: the speed, the cost, and the flexibility. Investors often want more control over their IRA. An IRA LLC gives it to them, along with faster access to capital. This is valuable especially to real estate investors who deal with auctions and foreclosures, because of the flexibility and access to funds. You fill out less paperwork and have fewer people to rely on, taking the control fully into your hands. Plus you pay fewer transaction fees. Additionally, if you select an IRA custodian who charges per-asset (Like IRAR Trust Company), you end up saving more on annual fees, because no matter how many assets the LLC owns, you're charged for one LLC asset.

However, that control also means there's less oversight, and you're responsible for any recording and reporting requirements, including tax filings.

Due Diligence With an IRA LLC

With all these advantages come additional risks and requirements. Costs for an LLC vary from state to state, with some being more expensive than others. Sometimes there may be additional tax obligations. You are also responsible for all recordkeeping, valuation, IRS reporting, and compliance for the LLC. Keep that in mind when deciding on a strategy.

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Non-Recourse Loan & Leveraging

Another method for additional capital: Your IRA can get a loan. This is a different type of loan than you would get personally if you were buying a house. Your IRA needs a non-recourse loan.

How Do Non-Recourse Loans Work?

The difference between a traditional mortgage and a non-recourse loan is that you aren't personally guaranteeing the loan. This means that the lender doesn't consider your income or credit score as part of the qualification process and they don't have any recourse against you. The IRA account holder is not personally liable for repayment of the loan.

With an IRA loan, the loan is in the name of the IRA (not you personally), with the property as the only collateral in event of default or nonpayment. So, for recourse, the lender can only seize the property. They can't go after additional IRAs or personal assets. To make up for this, generally the loan-to-value (LTV) ratios are a little lower than most mortgages.

You can extend the value of your retirement savings by using leverage to invest, just like in traditional real estate investing. Maybe you don't quite have the full purchase price in your IRA, or you are investing in a high cost of living area, or just want to spread your savings across multiple investments, a non-recourse loan can help you do it.

List of Non-Recourse Lenders

IRAR Trust Company works with lenders nationwide and has a list of lenders who have worked with our clients in the past. Give us a call and we'd be happy to provide the list and answer any questions you may have.

Due Diligence with a Non-Recourse Loan

No matter who your loan is through —be it a bank, firm, or private lender— you'll need to carefully review the terms and conditions to ensure it's a sound investment. Not only checking for a "bad deal", but also making sure there are no prohibited transactions. We'll review your paperwork, but you can save yourself a lot of time by rejecting any terms that would get the loan rejected by IRAR in advance.

Take UDFI into Consideration

If you decide to get a non-recourse loan, you will need to take Unrelated Debt Financed Income (UDFI) into consideration (discussed in more depth in a later chapter). When your IRA owns real estate that has a mortgage (considered debt-financed), the income is taxable to the IRA in the form of UDFI. The amount of income included is proportionate to the debt on the property. Your IRA is only taxed on the income proportionate to the amount that is debt financed and not the entire amount of income.

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Investing with Mortgage Notes in an IRA

A **mortgage note**, also known as a real estate note, is a promise to pay guaranteed by physical property. Essentially, it's a loan, a way to extend credit with exact terms outlined in the note itself and real estate as the collateral. If the borrower doesn't meet the terms of the note, there are consequences, as spelled out in the note (such as late fees, default, or seizure of collateral). Called a **deed of trust** in some states, this is a form of private financing. Instead of borrowing through the bank, the borrower repays the lender directly.

How Do Mortgage Notes Work?

Formally called a **promissory note secured by real property**, these are promissory notes backed by a Deed of Trust. This is a document that places a lien against the property once it has been recorded at the local county office. So, instead of buying real estate through a direct purchase, investors are loaning money from their IRA to another individual so that person can buy a property— essentially acting as the bank. But in this case, since it's secured by real estate, if the borrower defaults on the loan the IRA can foreclose on the property.

Terms of the note vary, but they generally outline things like mortgage type (fixed or variable, for example), principal amount, repayment schedule, interest rates, and what happens in case of default.

More Than One Lender

Sometimes there is more than one lender on a note. The first lender, as the name suggests, is the first to be paid back. In case of default, subordinate lenders are repaid after the lender in first position receives the full payoff. In addition to lending directly from your self-directed IRA, your IRA can buy notes from brokers or private parties.

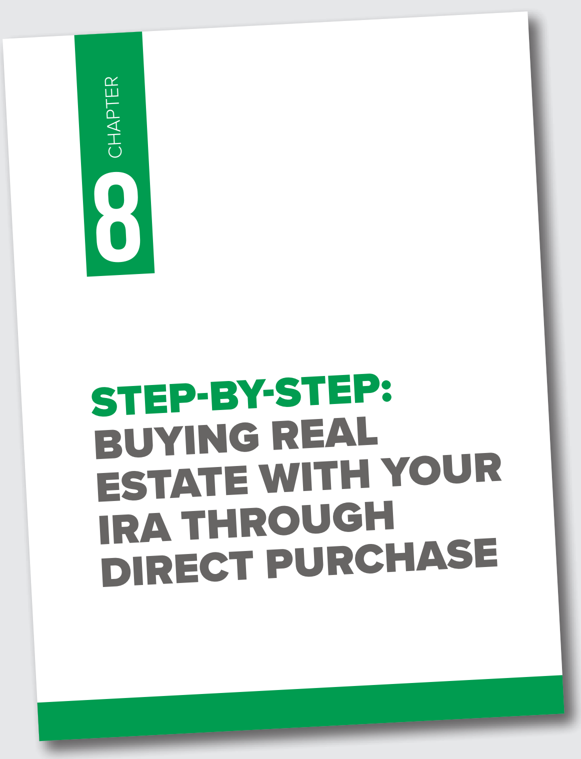
Due Diligence with a Mortgage Note

When investing with mortgage notes, your own due diligence is extremely important. Though you do have recourse in the case of non-payment (seizure of the property), that doesn't guarantee the asset has been well-maintained or retained its value, and there are costs involved in claiming ownership. If you investigate the buyer and the property heavily before investing, you increase your chances of a fruitful investment.

In a Nutshell

There are a number of strategies and ways to structure your IRA's real estate investment. Even if you don't have the full purchase amount, you aren't out of luck. You just need to consider your options.

Want a method of investing in real estate that's a little more hands-off? See our chapter on mortgage notes.



READY FOR THE NEXT CHAPTER?

CHAPTER 8:

Step-By-Step: Direct Purchase of Property with Your Self-Directed IRA

CHAPTER 8

STEP-BY-STEP: BUYING REAL ESTATE WITH YOUR IRA THROUGH DIRECT PURCHASE

Ready to purchase real estate directly, with the funds in your self-directed IRA? This chapter will walk you through it. Follow our step-by-step guide to completing a direct purchase of real estate with your self-directed IRA.

Introduction

The process for investing in real estate with a self-directed IRA is much like a traditional property investment, with just a few key differences.

In a self-directed IRA, once you buy the property it becomes an asset of your IRA. This means your IRA owns it. You don't own it personally, and you can't use it for personal reasons. It's important to know that since the IRA directly owns the asset, the IRA holder cannot benefit from the asset. You, as the account holder, cannot live in the property or use it as a vacation home, for example. The property is held for the exclusive benefit of the IRA. Also, your IRA cannot purchase a property from you or any disqualified person.

Buying real estate with your IRA isn't too different than what you're used to. The IRA is treated more-or-less like a person, but there are some extra rules. If your IRA has the full purchase amount in cash, it's like a traditional all-cash investment and the process is straightforward.

STEP ONE:
Open and Fund a Self-Directed IRA

As with any investment in an IRA, to begin you need to open and fund your IRA. You can find details and instructions on this process in chapters 5-6.

If you want to speed up the process, submit your paperwork as quickly and completely as possible. Send your account application with your funding paperwork and be clear about your intentions to invest in real estate. Our team can help you preemptively prepare, so you are ready to go once the investment is ready for purchase.

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STEP TWO:
Locating the Investment

How do you find real estate investments? Through friends, family, other investors, or real estate clubs? However you typically find deals, you can use the same method to find deals for your IRA. Just remember: You can't buy property from a disqualified person including property you already own personally.

Due Diligence

It's essential to remember that your IRA custodian isn't going to vet or review your investment for financial viability or legitimacy. We will go over your paperwork to make sure it follows basic self-directed rules, but it's up to you to make sure your investment is sound.

Does the property provide cashflow? Where is it located? What's the condition? Have you seen the property with your own two eyes, and does it stand up to scrutiny? You need to be asking these questions, and if you don't know the answers, find a team or advisor who does.

If you need more information, the SEC has some tips for investors.

Know the Rules: Prohibited Transactions and Disqualified Parties

It's essential to educate yourself on what the IRS considers a prohibited transaction. Making a prohibited transaction, even unintentionally, will strip away the tax-free or tax- advantaged status of your IRA. You must be careful not to engage in transactions with what the IRS calls disqualified parties. This means that you or your lineal ascendants and descendants cannot benefit from the property directly or indirectly.

For example, if your IRA purchases a property and your son's family moves in–this is not allowed. Your son is a disqualified person, and your IRA's tax status would be in jeopardy. You would be penalized and your IRA would be distributed, which could result in major tax consequences.

For a complete explanation of prohibited transactions visit our website.

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STEP THREE:
Purchasing the Property

Making an Offer

Once your account is funded, you can make an offer in the name of the IRA. To make an offer, you need to complete a real estate or property purchase agreement in the name of the IRA (the buyer).

The name or title on the purchase agreement will depend on your strategy: direct purchase, partnering, or LLC.

NOTE:
FBO means "For the Benefit Of"

Vesting of Purchase Agreement and Documents

When working with your real estate agent and completing the purchase agreement, make sure it is in the name of the IRA and not you personally. The same thing goes for all documents completed on behalf of the IRA. See the graphic in green.

Do not sign any documents on the "buyer" lines. IRAR will then sign the purchase contract/agreement and all documents. You will sign as "read and approved" at the top of documents– more on this later.

Here is how the "buyer" or "offer from" on the agreement should read:

IRAR Trust Company FBO John Doe, Account #12345

CALIFORNIA ASSOCIATION OF REALTORS®

CALIFORNIA
RESIDENTIAL PURCHASE AGREEMENT
AND JOINT ESCROW INSTRUCTIONS
(C.A.R. Form RPA-CA, Revised 12/15)

Date Prepared: ______

1. **OFFER:**
   A. **THIS IS AN OFFER FROM** IRAR Trust FBO John Doe, IRA #12345 ("Buyer").
   B. **THE REAL PROPERTY** to be acquired is ______, situated in ______ (City), ______ (County), California, ______ (Zip Code), Assessor's Parcel No. ______ ("Property").
   C. **THE PURCHASE PRICE** offered is ______ Dollars $ ______.
   D. **CLOSE OF ESCROW** shall occur on ☐ ______ (date)(or ☐ ______ **Days** After Acceptance).
   E. Buyer and Seller are referred to herein as the "Parties." Brokers are not Parties to this Agreement.
2. **AGENCY:**
   A. **DISCLOSURE:** The Parties each acknowledge receipt of a ☐ "Disclosure Regarding Real Estate Agency Relationships" (C.A.R. Form AD).
   B. **CONFIRMATION:** The following agency relationships are hereby confirmed for this transaction:
   Listing Agent ______ (Print Firm Name) is the agent of (check one): ☐ the Seller exclusively; or ☐ both the Buyer and Seller.
   Selling Agent ______ (Print Firm Name) (if not the same as the Listing Agent) is the agent of (check one): ☐ the Buyer exclusively; or ☐ the Seller exclusively; or ☐ both the Buyer and Seller.
   C. **POTENTIALLY COMPETING BUYERS AND SELLERS:** The Parties each acknowledge receipt of a ☐ "Possible Representation of More than One Buyer or Seller - Disclosure and Consent" (C.A.R. Form PRBS).
3. **FINANCE TERMS:** Buyer represents that funds will be good when deposited with Escrow Holder.
   A. **INITIAL DEPOSIT:** Deposit shall be in the amount of . . . . $ ______
   (1) Buyer Direct Deposit: Buyer shall deliver deposit directly to Escrow Holder by electronic funds transfer, ☐ cashier's check, ☐ personal check, ☐ other ______ within 3 business days after Acceptance (or ______);
   OR (2) ☐ Buyer Deposit with Agent: Buyer has given the deposit by personal check (or ______)

Example of California Residential Purchase Agreement

Real estate purchase agreements or contracts vary from state to state. The most important thing is that the "buyer" (how the new title will be vested) is in the name of the IRA. If the agreement is not in the name of the IRA, then IRAR can't fund the earnest money deposit unless these are corrected.

From time to time this does happen. If that is the case, you need to amend the agreement and change the buyer's name to the IRA, as seen above. This will delay your purchase but can be fixed. IRAR Trust Company can discuss this with your real estate agent if they aren't familiar with self-directed IRAs.

Completing the Paperwork

IRAR needs these documents to process:

- IRAR Real Estate Purchase Offer Review Form
- IRAR Real Estate Buy Direction Letter
- A copy of the purchase contract

Complete and submit these to IRAR so we can sign on behalf of the IRA. Allow up to one business day for review and processing.

NOTE:

In some states it is required that before IRAR Trust Company can fund the earnest money deposit (EMD) for investment purchases, we must have a fully executed Purchase Contract agreement signed by both parties: Seller and Buyer (the IRA).

TIP:

Make sure to list all parties involved in the transaction in the Buy Direction Letter-Real Estate to avoid communication delays with professionals involved in the transaction.

IRAR Trust Company Signs the Purchase Offer/Contract

IRAR Trust Company needs to sign on behalf of your IRA wherever initials or signatures are required (see examples below). Your IRA is purchasing the real estate, not you.

However, IRAR Trust Company does need your approval to sign on behalf of your IRA. You would need to review and sign (anywhere on contract) as "read and approved" with your signature next to it.

Example of Read and Approved:

Do this on all pages where a signature or initials are needed.

Read and approved: John Doe

IRAR Trust Company will review the agreement and sign on behalf of the IRA within 24 business hours if all documents are in order.

F. BALANCE OF DOWN PAYMENT OR PURCHASE PRICE in the amount of . . . . $
to be deposited with Escrow Holder pursuant to Escrow Holder instructions.
G. PURCHASE PRICE (TOTAL): . . . . $

Y Garcia
Buyer's Initials (IRAR Trust) ( ) Seller's Initials ( ) ( )

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CALIFORNIA RESIDENTIAL PURCHASE AGREEMENT (RPA-CA PAGE 1 OF 10)

Phone: Fax:
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When a signature is required on your purchase documents, an IRAR Trust Company authorized signer will sign on behalf of your IRA. The title or escrow company will request documentation validating that the IRAR Trust Company signature is authorized. In the photo example below, Veronica Alvizar is an authorized signer for IRAR Trust Company.

M. "Signed" means either a handwritten or electronic signature on an original document, Copy or any counterpart.

31. EXPIRATION OF OFFER: This offer shall be deemed revoked and the deposit, if any, shall be returned to Buyer unless the offer is Signed by Seller and a Copy of the Signed offer is personally received by Buyer, or by ______________________, who is authorized to receive it, by 5:00 PM on the third Day after this offer is signed by Buyer (or by ☐ ______________ ☐ AM/ ☐ PM, on ______________________ (date)).

☐ One or more Buyers is signing this Agreement in a representative capacity and not for him/herself as an individual. See attached Representative Capacity Signature Disclosure (C.A.R. Form RCSD-B) for additional terms.

Date ______________ BUYER Veronica Alvizar (Authorized IRAR Representative)
(Print name) Veronica Alvizar
Date ______________ BUYER ______________
(Print name) ______________

☐ Additional Signature Addendum attached (C.A.R. Form ASA).

Seller's Initials ( ) ( )

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Also, when a social security number is required (like on purchase documents or contracts), you'll need to use IRAR Trust Company's Employer Identification Number (EIN) instead of your personal social security number. IRAR Trust Company will provide you that number.

Earnest Money Deposit

The seller might require an earnest money deposit (EMD) along with the offer. An earnest money deposit is a deposit made to the Broker or Title Company showing the buyer's good faith in the transaction, and it may or may not be applied to the down payment or closing costs.

If your deal involves an EMD, you'll need to complete all pages in the Buy Direction Letter-Real Estate and submit it with the purchase agreement to IRAR Trust Company for review. If everything is in order, IRAR Trust Company will fund your EMD within 24 hours.

Inspections and Appraisals

When it comes to inspections, appraisals, and such, purchasing real estate in an IRA is no different than when someone purchases a home.

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STEP FOUR:
Closing

Escrow

Escrow is opened for your IRAR self-directed Real Estate IRA. When the title company is ready to close escrow, IRAR will need these documents:

a. Warranty or Grant Deed

b. Preliminary Title Report

c. Estimated Closing Statement

d. Loan Documents (if applicable)

IRAR will review the paperwork and fund the remaining balance. Allow up to three business days for review. When the paperwork is completed, IRAR will fund the next business day.

Title Insurance

Title insurance is an indemnity contract that will reimburse you for a loss in the event someone asserts a claim against the property that is covered by the policy. It works, along with a title company, to make sure that the title to the real estate is legitimate.

Title insurance is not required, nor does IRAR provide, offer recommendations, or instruction, but we do see clients often going this route.

How can there be a title defect if the title has been cleared by the title company?

Title insurance is issued after a careful examination of public records. But even the most thorough search cannot absolutely assure there are no title hazards. In addition to matters shown by public records, other title problems may exist that cannot be disclosed in a search.

Here are some of the things title insurance will protect you against:

- False impersonation of the true owner of the property
- A forged deed, release or will, and instruments executed under invalid or expired power of attorney
- Undisclosed or missing heirs
- Mistakes in recording legal documents
- Fraud
- Gaps in the chain of title
- Administration of estates and probate of wills of missing persons who are presumed deceased
- Issues concerning the rightful conveyances by corporate entities
- Probate matters

What protection does title insurance provide against defects and hidden risks?

Title insurance will pay to defend you, the insured, against any lawsuit attacking the title, and will clear up title problems or pay the insured losses. For a one-time premium, the title insurance policy remains in effect as long as you or your heirs retain an interest in the property.

For example: Here's a scenario we heard about of an investor who purchased a property in his IRA and did not use a title company.

> The investor instructed his IRA administrator to send funds directly to the seller. The seller received the money agreed on in the purchase contract, but neither the seller nor the investor recorded the warranty or grant deed in the name of the IRA. Once the seller had the money, he turned around and sold the property to someone else. The IRA investor lost the investment and his money.

What does using a title company for the purchase of the real estate mean to you?

Peace of mind. Although using a title company or getting title insurance are not required in an IRA transaction, title companies are there to make sure you are protected against fraud.

Closing Documents

When all the closing documents (listed below) are in order and you have reviewed and approved them for your IRA's purchase, the next step is to complete a Real Estate Transaction Read and Approved Acknowledgement Letter. This lets IRAR Trust Company know that you have reviewed and approved all documents. You will submit this completed form with the closing documents.

You must read and approve these documents before funding:

- Warranty or grant deed
- Preliminary title report or title statement
- Estimated closing statement or HUD statement
- Closing instructions (if applicable)
- Loan documents (if applicable)

Remember, do not sign any of the documents on the "buyer" line. IRAR Trust Company will sign the documents on behalf of your IRA and return them to the title company.

Typical Fees at Closing

IRAR charges $175 to process a real estate transaction, $175 for processing a RE note, and charges for payment processing depending on method ($7 per check, $30 per wire). There may also be additional charges depending on the county, company, or individual deal. Keep that in mind.

Funding Your Investment

Depending on the state where you are purchasing the property, IRAR Trust Company may need the seller's executed documents before we can fund the transaction. We will work with the title company to obtain these. Once we have closing documents in order, we will review, sign on behalf of your IRA, and send the funds to title, finalizing the transaction.

STEP FIVE:
After Closing

Once you've closed, it's important to make sure the finalized documents end up in the right places. IRAR Trust Company needs to receive your final closing documents, specifically the recorded Grant/Warranty Deed, for both safekeeping and compliance purposes. If you have any other original paperwork, forward it to IRAR Trust Company as well. This paperwork is also stored with us for safekeeping.

Here are your immediate to-do's after closing:

- Provide new and existing rental agreements with the landlord's name as "IRAR Trust Company FBO (IRA Owner name) IRA #(account)" and forward to IRAR Trust Company for our review and signature.
- Provide tenants with information on how to make rent checks payable to the IRA and where to send.
- Utilities should be setup in the name of "IRAR Trust Company FBO (IRA Owner name) IRA #(account)"
- If hiring a property manager, the agreement should be made between "IRAR Trust Company FBO (IRA Owner name) IRA #(account)" and the property management, then forward it to IRAR Trust Company for us to review and sign.
- For payments of property taxes, HOA fees, etc., submit a recurring Payment Authorization Letter (PAL) to IRAR Trust Company so we can make payments as required. Make sure to submit one PAL per vendor.

TIP:

If asked for a tax ID number on any of the paperwork during this process, you don't need to file for your own. You can use IRAR Trust Company' EIN.

Property Insurance

When getting property insurance for your investment, the policy must be in the name of your IRA and IRAR Trust Company must sign the insurance policy. If you have specific questions regarding this, please reach out to us and a representative would be happy to help.

In a Nutshell

Finding attractive properties, using real estate professionals and negotiating terms of a purchase don't change much between personally-owned and IRA-owned properties. Just make sure you are not engaging in what the IRS defines as a "prohibited transaction" or dealing with a "disqualified person".

The real differences come when you're ready to finalize the deal. Your IRA will own the property, not you as an individual, so documents must reflect that. That distinction starts with earnest money deposits and flows through to insuring the property, writing lease agreements, even making recurring HOA payments.

Throughout the process, keep this in mind: We're just a phone call away. IRAR Trust has the knowledge and extensive experience to help you with questions and guide your next steps. After all, we are the real estate IRA experts.

READY FOR THE NEXT CHAPTER?

CHAPTER 9:

Step-By-Step: Partnering Your IRA to Invest in Real Estate

CHAPTER 9

PARTNERING YOUR IRA TO INVEST IN REAL ESTATE

So, you want to invest in real estate with your IRA, but don't have enough money to buy the property outright. Does that mean you're stuck investing in stock? No! Lucky for you, there are plenty of other options for determined investors. Discover one of the most common strategies: partnering your IRA.

Introduction

If you don't have enough funds in your IRA to buy a property outright, you've got more options for funding. Partnering your IRA with one or more other investors is a popular investment strategy.

Though these self-directed IRA real estate investing strategies have their own separate processes, this strategy can be mixed and matched in many ways.

What is IRA Partnering?

Partnering is one of the common ways an IRA can make real estate investments without having enough money for the entire purchase amount. You can partner with any person (yes, even a disqualified person at the time of a new purchase), another person's IRA, or a company.

Our clients often choose to partner to maximize their investment opportunity and the funds they have available. Partnering your IRA may let you purchase investment properties outright or make a larger real estate investment. Here is step-by-step how they are doing this.

Partnering with Disqualified Persons

On a new transaction, you can partner with anyone, even yourself or another disqualified person. A disqualified person is you, your spouse, and your lineal ascendants and descendants (children, grandchildren, etc). You can partner using your retirement funds from multiple IRAs, partner IRA and personal funds, or partner with your children, spouse, friend, business partner and/or their IRAs. The potential is endless! And, this is one of the few times you can invest with a disqualified person, so take advantage.

However, there is one thing to keep in mind when partnering your IRA—future prohibited transactions. Make sure that you structure your deal so that you don't break the rules down the line. For example, if you partner with your spouse and down the line, your spouse wants to sell their share of the property, your IRA could not buy it because you are a disqualified person to their IRA.

Partnering your IRA is straightforward and many of our clients do it. You'll want to make sure it's an "arms-length" investment to avoid any prohibited transactions. Consult with a financial or tax professional to finalize your partnering strategy.

What's Considered a New Transaction?

An investment is considered a new transaction if this is the first purchase of the investment property. So, if your IRA is newly purchasing the property, you can partner with anyone you'd like. If the IRA decides, at some point in the future, to sell part of the investment and bring in a partner, this wouldn't be considered a new transaction. In this situation, the IRA wouldn't be able to bring in a disqualified person as a partner.

How To Invest in Real Estate With A Partner

So, partnering sounds pretty good and you're ready to get started—great! Here's what you need to do to bring in a partner and start investing with your self-directed IRA:

STEP ONE:
Open And Fund Your Self-Directed IRA

If you haven't already, you'll need to open a self-directed IRA before you start investing. You can do this online and submit it along with a copy of your photo ID. Have a credit card ready to pay the $100 account opening fee. See our fees page if you'd like more detailed information on the costs of a self-directed IRA.

The next step is to move retirement funds into your self-directed IRA so you can make your investment. There are 3 ways to do this: You can make an IRA contribution, an IRA transfer from a previous custodian, or a rollover from another retirement plan. Most commonly, real estate investors transfer or rollover their funds. For either of these methods, you'll need a recent statement from the retirement account the funds are coming from, along with the appropriate form (either an Account Transfer Form or Rollover/ Direct Rollover Certification Form). Check out Chapter 6 for details on how to move funds.

STEP TWO:
Finalize the Partner Details

Next, it's time to find a partner to help you fund this deal! Once you've located a trustworthy partner, you'll need to spell out how the partnership will be structured. Make sure both you and any partner you bring in on this deal understand how the process works before making your investment.

When partnering, each partner is purchasing a specific percentage of the property (called the percentage of ownership), and all income and expenses need to be divided according to the same percentage. Determine how much money each partner is contributing towards the investment ahead of time. Making sure everyone has a clear understanding can help prevent major headaches down the road.

It's also very important to talk about strategies before making an offer. For example, if your partner is using IRA funds to make the investment, they will also need to establish a self-directed IRA.

Combining Strategies

Your strategy can also include checkbook control or limited liability companies. Say you wanted to have access to funds quickly to make repairs, you can establish an IRA LLC and you and your partner can control the income and expenses of the IRAs but you would be responsible for all recordkeeping. This too will be covered in future chapters.

What if you still do not have enough for the investment? You and your partner can get a non-recourse loan. This is a loan to the IRAs (if both were using IRAs). This is covered in the next chapters so stay tuned.

In simple terms, you could bring in a partner, get a non-recourse loan, and establish an IRA LLC if that is your strategy. You are not limited to just one strategy.

STEP THREE:
Find an Investment Property

Once you've found a partner and worked out the details, you've got to find your investment property. How you do this varies from investor to investor, but there are plenty of resources on the web. As a Self-Directed IRA provider, IRAR Trust Company does not promote specific investments.

STEP FOUR:
Make an Offer on Your Investment

After the prep work is taken care of and the plan is in place, it's time to make an offer on your property! This process is similar to any other real estate IRA purchase, but you need to make sure to title all documents in the name of both the IRA and the partners, with the appropriate percentages spelled out explicitly. For example, if two IRAR clients decided to partner on a real estate investment, the documents would read:

> IRAR Trust FBO John Doe IRA #12345 an undivided 50% interest and IRAR Trust FBO Jane Doe IRA #54321 an undivided 50% interest

From there, the process is much like a typical real estate closing, except all expenses during the process must be split and paid according to the percentage of the property ownership.

Tips

Property Income and Expenses

If the property taxes need to be paid, each partner's IRA would pay the property tax bill. Each partner would submit a Payment Authorization Letter with a copy of the bill to let IRAR know what bill to pay, and how much based on percentage of ownership. In our example it would be 50-50.

The same is true for income. When the property sells, 50% of the proceeds will go to each IRA. Depending on the type of IRA that you have (Traditional IRA or Roth IRA), you may not have to pay taxes until you reach retirement.

Taking Distributions In Retirement

To take distributions from an alternative investment, in this case real estate, you would distribute a percentage of the property and pay the tax due on the value or amount distributed. This is explained in more detail in future chapters. Just know that it is possible and many of our clients do it now.

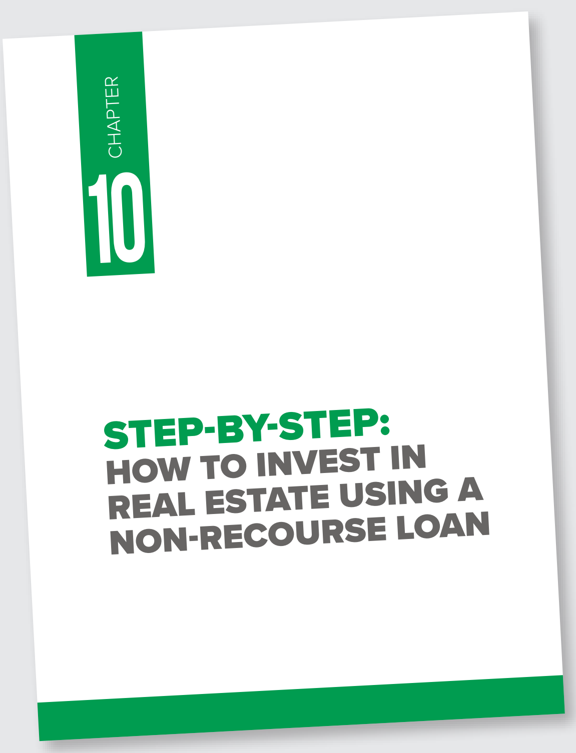
Transaction Fees

As with any other investment, there are transaction fees. The fee for a real estate purchase at IRAR Trust is $175, with a fee for the method you use to send the funds for your investment ($7 for a check, $30 for a wire, no charge for an ACH). The fees would apply to each client. Although you are making one purchase, IRAR would be doing the recordkeeping and reporting for both IRAs.

In a Nutshell

Many IRA investors don't realize they can partner, and they can do it with individuals you normally can't partner with. You can even do it with personal funds on a new deal. This makes it a particularly useful strategy for self-directed investors. Just think of it as a way to stretch your funds to purchase investment property and open many additional opportunities!

Whether you're partnering to buy the real estate through a direct purchase, or with a non-recourse loan, contact a qualified investment advisor or financial professional to help you establish your strategy to make sure your investments are in a tax advantaged environment.



READY FOR THE NEXT CHAPTER?

CHAPTER 10:

How to Invest in Real Estate Using a Non-Recourse Loan: Step By Step

CHAPTER 10

STEP-BY-STEP: HOW TO INVEST IN REAL ESTATE USING A NON-RECOURSE LOAN

It's true. An IRA can invest in real estate. It's easy and even provides tax advantages. But what happens if you don't have the money in your IRA to make the investment?

An interesting real estate investment strategy that can be used by investors to fund their deals is a “non-recourse loan to the IRA,” which is also known as non-recourse debt. This is a popular approach used by IRA investors. We will discuss it in this chapter.

• • •

Introduction

Let's start with the basics...

What is a non-recourse loan?

A non-recourse loan is a loan to the IRA where the IRA account holder does not have personal liability for repayment of the loan. Sometimes, it's referred to as "nonrecourse debt". This means that if the borrower does not repay the loan as agreed, the lender cannot pursue the IRA account holder for repayment. For example, they cannot have the account holder's wages garnished to repay the loan. Instead, the lender can seize the asset that provided collateral for the loan. You can see why this would be an attractive option for IRA investors.

Due to the uncommon nature of this funding, not every IRA provider, bank, lender, or real estate professional may be familiar with the process. With over 25 years of experience working with IRA investors and non-recourse lenders, we have seen it all. Here's how it works.

Getting Started

Once you have decided to incorporate a non-recourse loan in your investment strategy, start your research. You will not only need to research a lender but also a custodian if you do not have a self-directed IRA. You can learn how to compare IRA custodians and save on fees by using our template at the end of this chapter.

Doing your research is a very important step when getting started because you will want to familiarize yourself with the process, loan-to-value (LTV) requirements, rates, term, timing, restrictions, fees, knowledge of area, how to determine cashflow, etc. But not to worry, we will cover this in a bit.

TIP:

Visit our blog for more information on non-recourse loans. Check out articles, checklists, and more.

STEP ONE:
Open and Fund your SDIRA

To get a non-recourse loan, you must first have an established self-directed IRA. If you don't have a self-directed IRA, you can establish an account online via our website. Once your self-directed IRA account is open, you can add retirement savings to the account. You can add funds by transferring cash from an existing IRA or you can rollover an old 401(k). Please see chapter 6 on Transfers and Rollovers.

If you have other investments in the IRA that you want to transfer, you may have to liquidate assets to make a real estate purchase. You may want to do that before transferring the account to your self-directed IRA. A cash transfer is much easier.

STEP TWO:

Determine Your Strategy

As with all other IRA investing strategies, you are not limited to doing only one at a time. If you needed to bring in a partner to make the investment, you can. See our previous chapter on partnering.

Let's say you wanted to create an LLC for your self-directed IRA investment. You can do that. The LLC can also have partners. There are many creative ways to structure your deals, so take advantage of the opportunity. Make sure you do this before applying for the loan.

TIP:

Lenders usually have a prequalification list of questions that you will need to answer.

STEP THREE:
Applying for the Loan

Most banks do not offer these types of loans, and large national banks will not even allow a real estate IRA transaction. IRAR has a list of non-recourse lenders we have worked with in the past, which you can find on the non-recourse loan lenders page of our website or at the end of this chapter.

Qualifying for a non-recourse loan is different from qualifying for a loan when you purchase your home. Non-recourse lenders do not look at your income, employment, tax returns, etc. Non-recourse lenders focus on the property, leases, cash flow, and if the IRA has enough funds— they are similar to commercial real estate loans.

When you apply for the loan, you will need to provide statements for your IRA. The lender will use these statements to verify the IRA has the funds available for purchase, closing costs, and reserves. The IRA reserve requirements will vary from lender to lender but may be up to 20% of the loan amount. These reserves are required in case the borrow defaults, and there is insufficient cash flow to pay operating expenses and mortgage payments.

Loan Terms

Loan terms can vary from a 3-, 5-, or 10-year Adjustable-Rate Mortgage (ARM), to a 10-, 15-, 20-, or 30-year fixed rate, or even a 25-year fully amortizing loan with no prepayment penalty. The loan terms and interest rates will vary from lender to lender, depending on the individual situation and investment. Typically, these loans have higher interest rates and larger down payments than mortgage loans.

TIP:

Visit our SDIRA Professionals Network for a List of Non-Recourse Lenders

Requirements and Restrictions

Though every lender has different requirements, some requirements are similar. Here are some things to keep in mind no matter what lender you end up choosing:

- Depending on the lender, some properties may not be eligible for a non-recourse loan. This varies between lenders, so clarify with the individual loan provider when applying.
- Not all lenders offer loans nationwide. Make sure your lender meets your individual needs before proceeding.
- Your IRA will need to have enough funds available for closing costs and reserves, beyond the property price. How much you need to keep on hand varies depending on the individual lender.
- The property must be held in the name of the IRA and not the IRA owner.
- Although your personal credit score does not come into play with a non-recourse loan, you may be asked to provide personal information for you and your spouse.
- The property must be an income-producing investment. Properties must meet the debt service coverage ratio, which is net operating income divided by annual debt service. This means that the property must have a positive cash flow, after the rent is "discounted" for vacancies, utilities, etc.
- The lender will ask for an appraisal. The appraisal needs to be paid from the IRA funds, not personal funds. The IRA is responsible for all income and expenses (including inspections) during the purchase process and beyond.
- With hazard insurance, you will need to provide contact information for an insurance agent for the proposed property, and the insurance must be titled in the name of the IRA. Insurance in your name personally will not be accepted by lenders.
- The lender may require that the "loss payee" clause of hazard insurance be in the lenders name.

STEP FOUR:
Closing

As with any other real estate purchase, there are closing costs. These costs must come from the IRA and not your personal funds, so make sure to have enough cash available within the IRA. You can request an estimate of potential costs from your lender in advance. If you do not have enough funds in your IRA, you can make a contribution (if you haven't maxed out your contributions for the year) or transfer from another IRA if available.

Example of fees you may encounter during this process:

- Origination Fee to Lender
- Underwriting Fee to Lender
- Processing Fee to Lender
- Flood Certification Fee
- Appraisal Fee
- Settlement/Escrow Fee
- Title Insurance
- Recording Fees
- Mortgage Registration or Other State Fees (if applicable)
- Prepaid Interest and Taxes
- Initial Hazard Insurance Premium
- Attorney Review Fee (if applicable)

Time Frame for a Non-Recourse Loan

Typically, IRAR Trust's clients have seen their non-recourse transactions process somewhere between 30 to 45 days, from the date the lender receives your loan application. This process and timing is not the same for all IRA providers. Experience is a key factor in getting your transaction completed in a timely manner.

Other factors that come into play is how your deal is structured, the negotiating time, and the experience of the IRA provider's staff. Any of these can significantly speed or slow the transaction, and an error during this process can significantly delay the purchase process.

Taxes Associated with Non-Recourse Loans

You may be subject to Unrelated Debt-Financed Income (UDFI) when using a non-recourse loan to fund your transaction. UDFI is a tax on any income that derives from the use of "acquisition indebtedness" in self-directed IRA investments. "Acquisition Indebtedness" in this situation refers to income from a property where debt is incurred during the acquisition of the property.

SELF-DIRECTED IRA FEES & SERVICES COMPARISON

	IRAR TRUST	COMPANY A	COMPANY B
What year was the company established?	1996		
Are they an administrator or custodian?	Custodian & Administrator		
Service Level Rating (1-5 Stars)	*****		
• If you left a message, how promptly was it returned?	*****		
• Did you talk to a person?	*****		
• How confident are you in the answers you received?	*****		
• Do they limit investment options?	Physical precious metals		
• What is their BBB rating?	A+		
• Are there lawsuits pending against them?	No		
• How do their employees rate them?	*****		
What is the cost to open account?	$100		
What is the annual record keeping fee?	$199 (one asset)		
Additional Asset Annually	$75		
How often do they bill?	Semiannual - For Example: One asset: $99.50 semiannually. Two assets: $137.00 semiannually.		
What is the cost to close my account? (Termination Fee)	$250		
What if I don't fully close the account?	$25		
How much for purchase and sale of assets?			
Purchase Notes, LLC, Private Stock, etc.	$50		
Purchase Real Estate - Residential, Commercial, Land, etc.	$175		
Earnest Money Deposit (EMD)	(included in purchase)		
Non-Recourse Loan Processing	(included in purchase)		
Sell Notes, LLC, Private Stock, etc.	$50		
Sell Real Estate - Residential, Commercial, Land, etc.	$175		
Common Transactions Fees			
ACH transfers	$0		
Wire transfers	$30		
Overnight delivery via FedEx, UPS, USPS, etc.	$30		
Checks	$7		
Other Fees			
Estimated Annual Cost			

SELF-DIRECTED IRA NON-RECOURSE LENDERS

Company	Services	Contact
First Bank www.efirstbank.com	California Only	Natalie Russo natalie.russo@efirstbank.com 760.836.3529
	Colorado Only	Mark Burcham mark.burcham@efirstbank.com 303.793.2850
	Arizona Only	Slava Ivragimov slava.ibragimov@efirstbank.com 602.333.7740
First Western Federal Savings Bank www.myiralender.com	Nationwide (except NV)	Roger St. Pierre roger@myiralender.com Jeff Fullerton jeff@myiralender.com 800.908.8845
North American Savings Bank www.nasb.com	Nationwide	Jason Zook jzook@nasb.com (866)735-6272
The Norris Group www.thenorrisgroup.com	California Lender	Aaron Norris aaron@thenorrisgroup.com 951.780.5856
Optimus Capital www.optimuscapitalcorp.com	CA, TX, WA, TN, CO, VA, WV, FL, GA, OH, MI, MO, SC, IN, IL	Narmina Gasanbek narmina@optimuscapitalcorp.com 916.414.8861 office 916.477.9863 cell
Asset Peak Lending www.peakassetlending.com	AL, AR, CO, FL, GA, IL, IN, KS, KY, LA, MI, MS, MO, MT, NE, NM, NC, OH, OK, SC, TN, TX, WA, WI, WY	Shane Sauer shane@peakassetlending.com 913.956.7325

In a Nutshell

If you don't have enough funds to invest in real estate, you can take advantage of a non-recourse loan, which is a loan to your IRA. You are not personally liable for the loan. Each non-recourse lender has their own requirements and criteria for lending, so be sure to do your research and compare lenders.

READY FOR THE NEXT CHAPTER?

CHAPTER 11:

STEP BY STEP:
How to Invest in Real Estate Using an IRA LLC With Checkbook Control

CHAPTER 11

STEP-BY-STEP: WITH IRA LLCS FOR CHECKBOOK CONTROL

You're not required to establish a limited liability corporation (LLC) to invest in real estate through your IRA. However, many investors decide to utilize an LLC to make investment decisions and handle payments much more directly. There are other reasons and benefits why checkbook control is a popular strategy. We will cover that in this chapter.

• • •

Introduction

Are you ready to jump into buying rental properties as part of your Self-Directed IRA (SDIRA), but holding back because of the costs? Maybe you've read that you will need an IRA Custodian to handle all the routine transactions for your rental properties, which will only add to your overall costs?

There's a way to fix that. Many investors find that setting up an LLC (Limited Liability Corporation) with "Checkbook Control" can streamline the process of managing a rental property and reduce some of the costs. You're not required to set up an LLC to invest in real estate from your IRA, but many investors decide to use an LLC for a number of reasons. You, or whoever manages your LLC, can make investment decisions and handle issues and payments much more directly if you use an LLC. You won't have to wait for – or pay for – an IRA Custodian like IRAR Trust to handle simple payments and receipts.

If you follow this approach, your SDIRA will be the member and will therefore own the LLC. The LLC, in turn, will own and manage your property, meaning the LLC will pay all bills related to the property. The LLC can open a business checking account to handle incoming and outgoing payments. This is called "checkbook control".

Once you've set up both the SDIRA and LLC, you can move funds into your IRA, then add money to the LLC bank account. The LLC – with you controlling all the actions – will be able to make investments in property and manage all the financial transactions.

How do you get started?

A brief description of the steps you'll need to take follow. Remember, IRAR Trust is always here to help you if you have questions along the way.

Doing something else, other than an IRA LLC? Make sure to check out the relevant chapter for your strategy.

• • •

STEP ONE:
Open & Fund Your Self-Directed IRA

Your first step is to establish your Self-Directed IRA. This, in turn, will pay the LLC set up fees, so the SDIRA needs to come first. It will need to be funded either with a contribution, transfer, or rollover. Remember, annual contribution limits will apply if you are making a contribution into your IRA.

Once the account is open, it's time to form your LLC. You'll need your IRAR Trust self-directed IRA account number to finalize the process, though clients sometimes begin the process ahead of time.

We have a mandatory check hold of 5-days. Take this into account when timing your investment purchase so there aren't any surprises later. If you'd like your funds to arrive as soon as possible, it's best to request them sent via wire. The funds should arrive and be credited to your account within one business day.

NOTE:

All LLC formation costs need to be paid by the IRA.

• • •

STEP TWO:
Setting Up Your IRA LLC

In general, a "Limited Liability Corporation" (LLC) provides investors with liability protection similar to that of a corporation. Setting one up for your SDIRA will require a Tax ID Number (EIN), LLC Articles of Organization and an Operating Agreement, which are routine founding documents for an LLC.

In many cases, LLCs provide a measure of privacy and confidentiality. Your renters, for example, will sign agreements and make payments to the LLC, not your IRA or you personally. An LLC will also offer faster access to capital, to make quick real estate purchases, so you can take advantage of time-sensitive auctions and foreclosures to acquire property.

You can choose any name you want for your LLC and the state where you wish to create it. However, you will have to set up the LLC on your own, outside of IRAR Trust Company. This is not something we can do for you. There are resources available on our Professional Network section of our website if you need more information.

It's very important to list the LLC member correctly for smooth transactions and accurate recordkeeping. The IRA owns the LLC, which must be reflected correctly in the title as the member or investor. So, the proper way to format this is:

IRAR Trust Co. FBO John Doe, Account #123456

After establishing the LLC, you will be able to open a business banking account to receive payments and pay bills. You also can purchase other assets with the LLC's bank account.

Again, all costs to form the LLC and any other expenses related to the creation, formation, or maintenance of the LLC must come directly from the IRA. This is why it's so important to establish and fund the IRA first.

All income from properties or assets goes directly to the LLC bank account and all expenses are paid from it. You take the reins and have complete control of what goes in and out of the LLC account. This does not replace an IRA Custodian, like IRAR Trust. However, it does replace the need for the custodian to process all account transactions at a cost to you for each one— it can help you save.

III. Members.

A. Members. The members of the Company (jointly the "Members") and their Membership Interest in the same at the time of adoption of this Agreement are as follows:

IRAR Trust Co. FBO John Doe, Account #123456, 100%

Note that above, the vesting is listed in the name of the IRA. The IRA is listed as the sole member of the LLC (shown as the one 100% owner of the LLC). It is possible (and common) for investors to partner with one or more individuals, in which case they would be listed as other members of the LLC. For the sake of simplicity, we've kept this example to a single-member LLC, but we're happy to answer questions about partnering inside an LLC.

Basically, the LLC is an asset held inside the IRA. IRAR will sign on behalf of the LLC wherever a signature is required to form the LLC. However, you will need to sign the documents as "Read and Approved" on the front of the agreement, as well as next to any place a signature is required.

Required Documents

Once the LLC is established, IRAR will need a few documents before we can send the funds to the LLC's bank account:

a. An IRAR Buy Direction Letter

b. A copy of your LLC Operating Agreement

c. Your LLC's Articles of Incorporation

It's important that you complete the forms correctly, as mistakes in preparing your documents can result in slower processing or lost deals. On all documents that require the name of the member, you will write the name of the IRA as shown previously. You do not sign your name on the documents because the investor is the IRA. We'll also need you to sign "Read and Approved" next to anywhere a signature is required, to show you consent to the information stated. This is the most common thing investors miss, and it can slow down your transaction, so make sure you've signed everywhere that's required.

See example document at the end of this chapter.

Buy Direction Letter

Our Buy Direction Letter lets IRAR know how and where to send your funds, as well as how to list the asset in your account once the purchase is completed.

For an IRA LLC, you'll select "New Purchase". This lets us know that this is a new LLC, instead of adding additional funds to an existing LLC. If you want to add funds to your LLC at a later time, you'd select "Additional Funding".

Make sure you note the number of shares and the price per share, as well as the total dollar amount of the purchase. It's important that you fill out every part of this section, because if you sell a portion of your shares later, we'll need to know how to calculate your remaining ownership. This needs to match what is written in your Operating Agreement. For a single member LLC, this is often seen as a dollar per share. For example, $100,000 dollars equals $100,000 shares at $1 each.

Private Placement Disclaimer and Indemnity Agreement

When you make a New Purchase, you need to complete section 3 and 8 of the Private Placement Buy Direction Letter. These sections are relatively short but deals with a very important question: Are you the manager or a member of your LLC?

If you're the manager or a member of the LLC, you are not allowed to be compensated. This is considered a prohibited transaction, as you are gaining personal benefit from your IRA funds. You may manage the LLC yourself, but you cannot be paid.

You cannot list IRAR as the manager of the LLC. This is not something we can do for you. It's another prohibited transaction. If you'd like, you can hire an outside party to manage your LLC for you, as long as they are not a disqualified person.

> **Remember:** The LLC can be managed by you or a third party, but you can't pay yourself a salary for doing so. Do not use the LLC for personal use, or deposit personal funds into the LLC bank account. These are prohibited transactions and are not allowed within your self-directed IRA LLC.

For example, say you own a rental property within your LLC and the roof needs repair. You can use the LLC bank account to pay for the repairs. Your tenant would pay rent to the LLC and the LLC would pay for any other expenses related to the property, like property taxes and upgrades.

LLC Operating Agreement and Other Documents

A copy of your LLC Operating Agreement and other foundational documents need to be provided. Make sure your IRA is listed as a member or investor in the document. Your name should not be listed as the member or investor.

III. Members.

A. Members. The members of the Company (jointly the "Members") and their Membership Interest in the same at the time of adoption of this Agreement are as follows:

IRAR Trust Co. FBO John Doe, Account #123456, 100%

The price per unit and the asset name needs to match what is on your Buy Direction Letter. We need to keep these consistent, for recordkeeping and tax purposes. You also should verify you have the right address listed for IRAR. You should list our processing office in Walnut Creek on your documents, so we get any relevant bills and paperwork by mail in a timely fashion. Anything we receive will be forwarded to the email address associated with your IRAR account, so you'll be able to see anything we receive for your account.

As mentioned earlier, IRAR cannot manage your LLC, but you can. You're just not allowed to receive compensation for doing so. That would be considered a prohibited transaction. You may hire and pay an outside party to manage your LLC (though not someone who is a disqualified person), but you personally may not be paid, even if you're doing the work.

STEP THREE:

Move Money From Your Self-Directed IRA to Your IRA LLC

Once we've received the documentation needed and the funds are available in your IRA, we process the LLC as the investment. There is usually a two-day review period to process the IRA investment and send funds to the LLC’s bank. You can have funds sent via wire or via check, depending on how quickly you need these to arrive.

Keep Some Funds in Your Self-Directed IRA

Typically, IRA LLC investors keep enough funds in the LLC bank checking account. It’s also an excellent idea to keep some cash in your IRA for unexpected expenses, since ALL maintenance costs on the property need to come from the IRA funds. If you encounter a large one-time expense, and the LLC’s bank account can’t manage it, you’ll have easy access to other cash if it’s in the IRA.

STEP FOUR:
Invest in Real Estate With Your IRA LLC

The IRA LLC Real Estate Purchase Process

Once the funds get to your IRA LLC, the process is out of IRAR's hand. You take the lead and continue on your own. Any real estate purchase you make happens more or less like in a traditional real estate deal, except all contracts, insurance, and other documents must be in the name of the LLC.

When you're using an LLC, IRAR isn't involved in the purchase or the day-to-day processing of income and payments. You, your property manager, or your agent(s) will handle all of the paperwork and details, with no input or signatures needed from IRAR unless you need to move additional funds to the LLC.

From this step forward, you can treat your LLC like any other investment account. Monitor your statements for accuracy and respond to any discrepancies. If you have a single-member LLC, you'll be the one updating the Fair Market Value (FMV) and you'll need to ensure all tax filings are correct. If you have a few properties in your LLC and want to sell one, you'll need to handle the whole transaction. You're in charge, so you have complete responsibility, and you get to reap all the rewards. You are also responsible for accurate recordkeeping of the LLC income and expenses as well as annual filings if that is required in the state where you set it up.

HOW TO PROPERLY TITLE YOUR IRA INVESTMENT DOCUMENTS

ASSET OWNERSHIP

All investments are owned by the IRA not you personally.

Therefore, the IRA is always listed as the buyer in a real estate contract, or as an investor or member in an entity, such as an LLC, PPM, etc.

IRAR Trust
IRA Custodian

FBO
For The Benefit Of

John Doe
Name of IRA Account Owner

#123456
IRA Account Number

IRAR TRUST COMPANY
IRA RESOURCES, INC.

888-322-6534
858-459-6565 fax

www.iraresources.com

100 Pringle Ave, Suite 650
Walnut Creek, CA 94596

HOW TO TITLE INVESTMENT DOCS

The name of your IRA is:
The Custodian's Name FBO Your Name, Your Account Number

However, your investment strategy and number of investors will determine how the real estate or asset title is held. Your IRA will either be a direct investor or an investor via an entity.

VESTING/TITLE EXAMPLES

One IRA Owner

Real Estate Purchase Contract lists the IRA as the only owner of the asset:
IRAR Trust FBO John Doe, Account #123456

Multiple Owners

Investment documents list the interest of each Owner: In this example, Jane's IRA owns 50% and John's IRA owns 50%
IRAR Trust FBO John Doe IRA #123456 an undivided 50% interest and IRAR Trust FBO Jane Doe IRA #654321 an undivided 50% interest

IRA LLC, PPM, or Entity

When the investment is through an LLC or other entity, the IRA *(IRAR Trust FBO John Doe, Account #123456)* is listed as a member or investor in the investment documents. The ownership percentage should also be listed proportionate to the capital contribution or investment amount.

HOW TO APPROVE INVESTMENT DOCUMENTS: READ & APPROVED

HOW TO APPROVE INVESTMENT DOCUMENTS

As a self-directed IRA investor, you are responsible for reviewing and approving all investment documents in order for IRAR to execute your investment request. All investment documents must be marked “read and approved” with your signature next to this acknowledgement. You can do this anywhere on the page where a signature is required, except on the signature line(s). **DO NOT NOT SIGN DOCUMENTS ON ANY SIGNATURE LINES.** IRAR will sign all investment documents on behalf of your IRA. Your IRA is purchasing the asset, not you personally. See examples below.

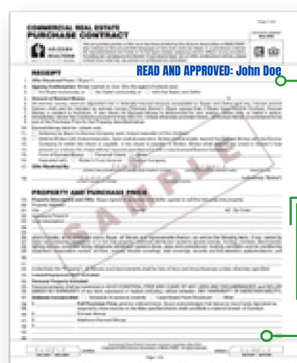
EXAMPLES OF READ & APPROVED DOCUMENTS

Read and Approved

John Doe

Do this anywhere on the page's blank space where signatures or initials are needed.

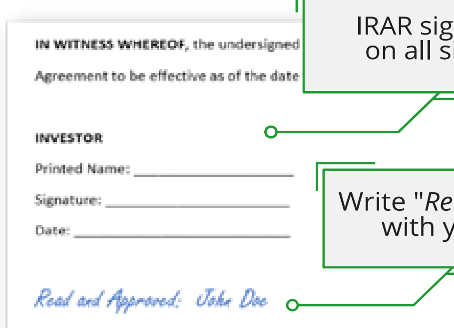
Real Estate Contract



Write "*Read and Approved*" with your signature

IRAR signs documents on all signature lines

IRA LLC, PPM, or Entity



IRAR signs documents on all signature lines

Write "*Read and Approved*" with your signature

IRAR TRUST COMPANY
IRA RESOURCES, INC.

888-322-6534
858-459-6565 fax

www.iraresources.com

100 Pringle Ave, Suite 650
Walnut Creek, CA 94596

In a Nutshell

“Checkbook Control” of your LLC investment property allows you to handle all the incoming and outgoing payments related to your property. It can reduce your costs by eliminating the need for an IRA Custodian to process every transaction, at a cost to you. Although the IRA custodian is not managing your account, you are still required to have a custodian by law. These are the simple steps you can take to setup a Self-Directed IRA, then create an LLC and secure rental property so you can begin receiving rent payments and paying for maintenance costs yourself.

If you have any questions on the process, IRAR Trust is always here to help you.

READY FOR THE NEXT CHAPTER?

CHAPTER 12:

Mortgage Notes in Your Self-Directed IRA