



SELF-DIRECTED IRAS

WHAT YOU NEED TO KNOW TO GET STARTED

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A self-directed individual retirement account (SDIRA) gives you the freedom, flexibility, and choice of how to invest your hard-saved dollars. You can expand and diversify your investment opportunities beyond the stock market into a variety of assets, such as mortgages, notes, real estate, and private placements. By diversifying your investments, you increase the chance of protecting and enhancing your retirement.

For over 20 years, IRA Resources, Inc. (IRAR) has provided self-directed account administration services for people who want to control how they save for retirement, health care, and education expenses. Our clients invest in non-traditional assets as part of their overall strategy. Investments may include residential and commercial real estate, notes, IRA LLCs.

This white paper describes the basic rules of self-direction so that you can make the most of your retirement savings. When it comes to investing, the choice is yours. IRAR does not promote any investment. Rather, we provide the tools and education to help make self-directed retirement straightforward, cost effective and compliant.

Self-Directed IRA Basics

It's a common misconception that the only investments allowed in retirement accounts are stocks, CDs, and mutual funds. Broader investment options have been available since 1975, when IRAs were introduced as part of the Employee Retirement Income Security Act of 1974.

The term “self-directed” simply means that you, as an individual, have complete control over selecting and directing your IRA investments. With a self-directed account you can buy real estate, notes, limited partnerships, commercial paper, and many other types of assets. To be clear, when we say “you,” we mean you as the account holder of your IRA. You are not making the purchases and investments personally; your IRA account is.

If you use a bank or brokerage firm as your IRA custodian, the investment offerings are often limited to their products, stocks, or mutual funds. With a self-directed IRA, you establish your account with a company like IRAR, which does not promote any investments or products but rather provides the administrative and record keeping services. A truly self-directed retirement plan gives you the freedom to invest in many types of assets—assets that are not prohibited by U.S. Treasury Department regulations or the Internal Revenue code.

Allowed and Disallowed Investments in Self-Directed IRAs

It comes as a surprise to many people that there is no list of approved investments for retirement plans. However, the IRS does have a list of what is not allowed as an investment. Self-directed IRAs cannot invest in:

1. Collectibles: Art, antiques, gems, coins, or alcoholic beverage, and certain precious metals
2. Life insurance (See IRC Section 408(a)(3))
3. S-Corporations: Trusts that qualify as an IRA are not eligible to be shareholders of an S-Corporation.
(See Revenue Ruling 92-73)

For more information on investments not allowed in retirement plans visit the [IRS website](#).



Here are some of the many alternative assets that our current clients have invested in with their self-directed accounts. Consult with your tax advisor or financial planner on the best course of action.

- ▶ Private Placements
- ▶ Joint Ventures
- ▶ Contracts of Sale
- ▶ Foreign Sales Corporation Stock
- ▶ Improved or Unimproved Land
- ▶ Leases
- ▶ Tax Lien Certificates
- ▶ Factoring
- ▶ Single Family and Multi-Unit Homes
- ▶ Commercial Property
- ▶ Limited Liability Companies
- ▶ Trust Deeds and Mortgage Notes
- ▶ Limited Partnerships
- ▶ Shopping Centers
- ▶ Accounts Receivable Financing
- ▶ Tangible Asset Deeds

If you decide that self-directing is for you, IRAR is here to answer your questions and help you get started. Give us a call if you have an investment in mind or set up a [free consultation](#) at your convenience.

Prohibited Transactions

Your retirement plan is intended to benefit you when you retire and not before. Transactions that can be interpreted as providing you immediate benefit or involve “disqualified persons” are not allowed. If your IRA engages in a transaction that is prohibited your account may be subject to penalties. (See IRS Section 4975 for a complete list of prohibited transactions.)

Know the Rules Before Engaging in a Transaction

Self-directed IRAs give you great power to invest in non-traditional assets. Assets you understand such as real estate, private placements, and many more. But with great power comes great responsibility. It is very important to know that:

- You are responsible for vetting the investment.
- You are responsible for making all the decisions for your self-directed IRA.
- You are responsible for making sure you do not break the rules that keep your IRA in a tax-enhanced environment.



Top 3 Self-Directed IRA Rules to Keep in Mind:

1. You cannot engage in a transaction with a disqualified person.
2. You cannot use the IRA for personal benefit.
3. You cannot invest in disallowed investments.

Breaking these rules can result in severe tax consequences. Whenever you are unsure of a transaction or situation, always consult with a financial professional before you act to get clarification or give us a call.

What is a Disqualified Person?

Disqualified Persons are people or entities that cannot do any direct or indirect transactions with the IRA. The IRA cannot do business with:

- You, the IRA owner
- Beneficiaries of your IRA
- Your family members:
 - ▶ Spouse
 - ▶ Parents
 - ▶ Grandparents and great-grandparents
 - ▶ Children and their spouses
 - ▶ Grandchildren, great-grandchildren, and their spouses
- Service providers of the IRA including those that give investment advice concerning the assets for which he/she receives direct or indirect compensation.
- An entity—it could be a corporation, partnership, limited liability company, trust or estate—owned 50% or more (directly or indirectly) by a Disqualified Person.
- An officer, director (or an individual having powers or responsibilities similar to those of officers or directors), a 10% or more shareholder, or highly compensated employee (earning 10% or more of the yearly wages of an employer) of a person described above.



Certain taxes, called UBIT or UDFI, may apply when you leverage or use an LLC to buy an asset. Consult your tax professional to see if they apply to your investment.

Establishing a Self-Directed IRA

Our process is simple and we help you every step of the way. Once you have made the decision to invest in alternative assets with IRA funds, here is what you need to do:

- Open and fund a self-directed IRA account at IRAR via a [rollover](#) or [transfer](#)
- Identify your strategy for the purchase.
 - ▶ **Direct Purchase** is when you purchase the asset using only money in your self-directed IRA. Your IRA pays all-cash for the investment. It is the simplest and quickest way to fund a purchase.
 - ▶ **Partnering** is when you bring in other sources of cash to fund the purchase. You can partner with other people's IRAs or with their personal funds. You divide the investment profits and expenses among investors based on ownership percentage.
 - ▶ **Leveraging** is when your IRA takes out a loan, typically known as a non-recourse loan. This sort of credit is common in real estate purchases and cannot be obtained by going through traditional means. We work with many non-recourse lenders. Contact us to learn more.
 - ▶ **LLC/Checkbook Control** is the process of establishing a limited liability company (LLC) with IRA funds and using the LLC to buy the asset. The investment is then held in the name of the LLC. These are called Checkbook IRAs because you have direct access to your IRA funds via a checking account that is owned by your IRA. IRA Resources does not sell or create LLCs. To learn about how to form an LLC, visit the IRS website or your local SBA district office for more information.
- Review and approve documents for IRAR to fund the purchase.
- Send IRAR all legal documents related to the investment for safekeeping.

Example:

Buying Real Estate with Your IRA

William opened a self-directed IRA to invest in rental property. He had funds sitting in a 401(k) plan from a former employer that he wanted to put to better use. He reached out to an IRA Resources (IRAR) representative. We walked him through the steps to open an account, fund it, and make the investment.

He had a property in mind—a single family residence in his neighborhood, and the owner was ready to sell. The cash flow on the property was \$12,800 per year gross and \$7,000 net. He decided to make an all cash offer of \$250,000. He took the following steps to purchase his investment property with his IRA.

He made an offer on the property in the name of the IRA (IRA Resources: FBO William Jones, Account #12345). It is important to note that the purchase must be made by the IRA, not the IRA owner. The seller accepted the offer.

He completed a *Buy Direction Letter-Real Estate* and sent it back to IRAR, along with a copy of the contract. IRAR signed the contract on behalf of his IRA and sent a \$10,000 good faith deposit to the title company from his IRA in accordance with the instructions on the Buy Direction Letter.

Finally, William read through all the closing documents and approved these by completing the IRAR Real Estate Transaction *Read and Approved Acknowledgement Letter*. IRAR signed the documents and worked with the title company to get the seller signed documents for signature and to send funds.

The deal closed, and William's IRA now owns the property. The deed is recorded in the name of IRAR for the benefit of William's IRA (IRA Resources: FBO William Jones, Account #12345). The deed is sent back to IRAR for safekeeping.

William will instruct the tenants to make all payments to IRAR FBO William Jones, Account #12345. Payments cannot be made directly to William, as this would violate the conditions of the IRA. Service providers, such as utilities and insurance companies, are also instructed to bill the IRA. All expenses, including property taxes, must be paid from IRA funds. William simply has them send the bills directly to IRAR to pay from his IRA account.

If you have purchased property before, you can see that this process is like making that purchase. The only difference is that there is an intermediary, IRAR, performing the transaction on behalf of the IRA. It is your IRA that makes the purchase, receives the income, and pays the expenses.

Make sure the asset is registered in name of the IRA
“IRA Resources, Inc. FBO Client Name, Account Number”

If there is more than one owner - *Example of two IRAs partnering 50-50:*

IRA Resources, Inc. FBO John Doe Account #12345, as to an undivided 50% interest,
IRA Resources, Inc FBO Jane Smith Account #65432, as to an undivided 50% interest.

Not Enough Money in Your IRA

William was lucky that he had enough funds in his IRA to make an all-cash offer. What are your options if your IRA doesn't have enough cash? Transfer or roll over funds from another IRA or qualified plan. If funds are available in another plan, you can usually transfer or roll them over to the funding IRA without penalty.

- **Borrow money.** An IRA can borrow funds, but it must be a non-recourse loan—financing where the property is the only collateral—because you personally cannot be obligated to pay the note. If the IRA borrows money to purchase the asset, the debt financing is also subject to unrelated business income tax.
- **Sell another asset in your plan.** This is an easy way to raise funds. If your IRA is invested in stocks, mutual funds, or another asset, you can sell them to free up the money.
- **Bring in partners.** To avoid taking out a loan, your IRA can partner with others, including yourself, to purchase the asset at the time of the initial purchase only. Your IRA would have an undivided interest in the property, and all income and expenses would be divided according to the portion owned. However, after the original purchase, you, or any other disqualified persons, could not partner with your IRA.

Self-Directed IRA FAQs

To view frequently asked questions regarding Self-Directed IRAs, visit our FAQ page.

[▶ CLICK HERE](#)



IRA RESOURCES, INC.

About IRA Resources

IRA Resources, Inc. (IRAR) is the knowledge leader and provider of account administration services for self-directed retirement plans. For more than 20 years, IRAR has been in the industry, placing high value on first-hand personal service at a cost-effective price for its clients.

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IRA Resources, Inc. does not promote any investments. Rather, provides the administration, information, and tools to help make self-direction straightforward, cost effective, and compliant.

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