Learning Library

USING YOUR IRA OR 401K TO PURCHASE REAL ESTATE

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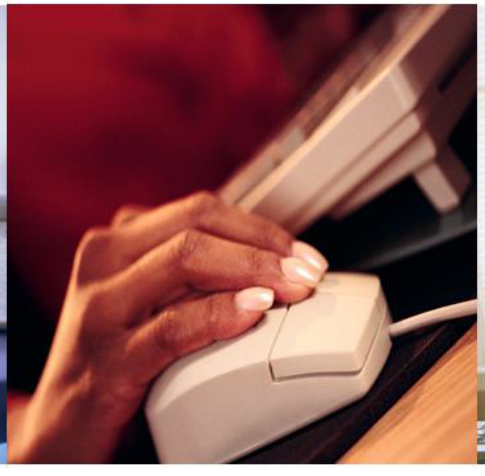


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We've been duped

Did you know that you can invest your pension funds in such things as houses, condominiums, bare land, hotels, apartments, businesses, loans, and a whole host of investments other than securities offered by the investment specialists?

It was 1974 and the sharks smelled the blood in the water. That was the year that the U.S. Congress began to sense the long term demographic problems of the long term future of the nation's Social Security Program problems. American's weren't saving at the rates of other industrialized nations and Congress – in one of those rare instances of proactive legislation – created the Employee Retirement Income Security Act of 1974 (ERISA).

But as is normal for the development of new laws and government programs, some "special opportunities" can arise for those near to the process of putting together a program; I'm talking about the Investment industry which was brought in to provide ideas on what would be some of the best long term investment types and vehicles for individuals and employees. Well, needless to say, there must have been a lot of knowing glances and winking around the table as the investment institutions must have started to salivate and lick their collective chops. Nowhere was there a representative from the Real Estate industry to also have the opportunity to help provide some enlightened self interest as had the Investment industry.

Armed with their potent sales and marketing machine and the ability to adapt the new law to their needs, the Investment industry has done a good job in keeping the trillions of dollars of IRA and 401K pension funds under their control. Not only were they able to usurp the act for their benefit but their "educational efforts" still have a lasting impact 38 years after the ERISA act was signed into law. You see, most of us think that our IRAs and 401Ks are limited to certain types of investments such as stocks, bonds, and mutual funds – the principal products of the Investment industry. Indeed, it has been a story for the Sales & Marketing hall of fame. You see, the ERISA act is very specific of what can and can't be classified as a qualifying investment. With a legal slight of hand, the Investment industry was able to guide most ERISA investments to their collective door.

It's not a case of the public being stupid but of being uninformed. You see, the ERISA law is out there for all of us to read. But who has the time or inclination to read it? It's much easier to turn our money over to the "professionals" and just review our usually uninspiring account statement at the end of each year. The constant threat of information overload is now the major way the "enlightened self-interest groups" make us all look for help with what appears to be a complex subject. They full well understand that most of us are just too busy trying to make a living and raise our families. We don't have time to educate ourselves about another complex subject. And in the case of sophisticated and confusing investment vehicles, it is probably a good idea to seek professional help. But the fact is that we can use our pension funds to invest in many other things besides the esoteric equities investments.

A Custodian with an agenda

Here is how the Investment industry has trained us to seek them out. You see under the ERISA law, to qualify for tax deferred status, there must be a custodian to make sure the employee is not investing their pension funds in a manner that will disqualify the funds. As the government feels that it is best to have an "objective" holder of the funds, employees are much less prone to make questionable investments. So, the government allows the independent custodians to tailor their requirements to meet their idea of what can be invested in. Of course, if the employee doesn't like the rules set up by the custodian, they are free to seek any other *certified custodian* whose interpretation of the ERISA requirements are less restrictive. How many of you knew this fact? We could all turn red and a bit outraged by the clever marketing of the Investment industry but they could just as easily turn to us and say: "the law is out there for all to read. If you didn't take the time to read it – and understand it – that's your fault." And indeed, such is the responsibility of all consumers. *Caveat Emptor* is the phrase.

It's not to say that investing in equities (stocks, bonds, and mutual funds) isn't a wise thing to do, but there are distinct advantages in diversifying in many types of investments – not just intangible securities. As a matter of fact, diversification is a backbone concept in the Investment industry; it's just that they prefer that you invest in their commission producing products. Nothing wrong with that. But the fact is, as custodians of an IRA or 401K the Investment industry can restrict the types of investments from the qualified list if they want. If the beneficiary of the trust doesn't like the custodian's rules, they can look for a custodian more to their liking. Of course, this fact is in the small print that even if you wanted to read it you probably couldn't because the print is too small.

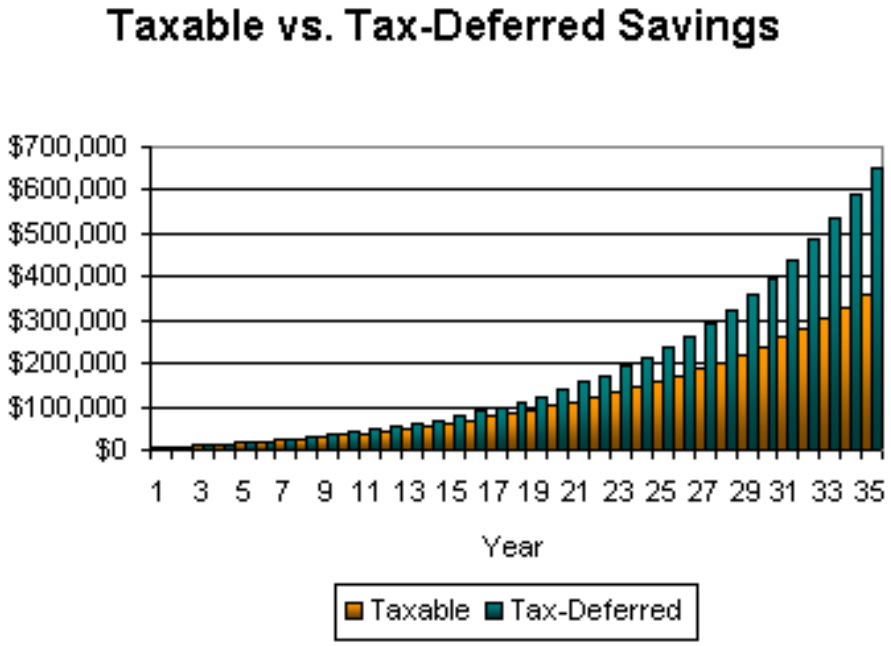
Over the long term, the stock market has produced an average return of over 12% but that is just an average. Last year, only 25% of mutual funds were able to match the S&P average. Not a sterling performance. And as most of us aren't educated investors, we leave it up to the professionals who are mandated by law to be very conservative in their investments – otherwise you could sue them…

If we have most of out IRA or 401K funds in equities, we are at the mercy of somebody else's judgment of what a good investment is and what it is not because we just don't know. However, there are investments we do understand – maybe even better than the equities "pros". For example, most of us understand the local Real Estate market because we live there. We know what local rents are. We know what local homes and land is selling for. Moreover, there are many who own and operate a business or work in a specific industry and understand about these businesses. We can invest in businesses we know about but using retirement funds requires certain procedures to be followed. However, for the purposes of this paper, we will be looking at how to use retirement funds to purchase Real Estate; something most of us know something about.

Advantages of Tax Deferred Investing

Before going into the specifics of what can and can't be invested within your retirement account, let's review what makes tax deferral so important in helping to create wealth. Perhaps the best way to demonstrate the long term power of non-taxable investment returns is to look at some examples.

Suppose you start your IRA when you are 25 years old and invest $ 2,000 dollars every year in a fund that produces a 10% average annual return over 35 years. For the purpose of this example we assume a 25% tax bracket. Look at the difference having the savings/investments in a tax differed IRA or 401K.



As the chart above demonstrates, not having to pay taxes provides an extra $280,000 over time.

Take a look at another example:
Suppose you purchased an apartment for $100,000 and rent it out for five years at $900 per month. You have no maintenance or other expenses (yeah, right!). Five years after you purchased the property, you sell it for $150,000.

	Taxable	Tax differed
Capital Gains	**$50,000**	**$ 50,000**
Rental Income	**54,000**	**54,000**
Sub Total	**104,000**	**104,000**
Tax (25%)	**26,000**	**-0-**
Total Gain	**$78,000**	**$104,000**

But we are getting ahead of ourselves. The idea is clear: over the long term, you benefit greatly by having your investments grow inside a tax differed retirement vehicle.

What types of Real Estate investments can be made with your retirement funds?

The IRS, in its wisdom, decided not to tell us what types of investments we can make in our IRAs and 401Ks, rather what we cannot invest in. As a result, we need to figure out what section 509 of the IRS code is not telling us!

To save you the time of reading on your head, specifically related to Real Estate, you can invest in**:**

Raw Land
Single Family Homes
Multiple-unit dwellings
Apartment Buildings
Condominiums
Office Buildings
Foreign Real Estate
Options on any of the above
Tax Lien Certificates
Mortgages
Notes

As was mentioned before, Real Estate offers a class of investment asset that helps to diversify the portfolio of investments within the IRA/401K. Not only that but it's possible to purchase your retirement home within your fund. Other investments don't offer this kind of utility unless you like to eat securities certificates.
But before you get too excited, we need to make it clear that the first thing you must do is get control of your own retirement fund. How do you do that?

How to take back your IRA/401K

When the government brain trust was crafting the ERISA law, they started with the premise that most people don't have the discipline to save. They need a tangible incentive to defer the immediate gratification that spend able income can bring (remember, we are a consumer based economy and spending to the max is a patriotic duty, which most of us do very well). So to help overcome the seductive siren's call of Madison Avenue, the government designed a tax incentive, which would appeal to most people by providing the ability to reduce taxable income and the ability to grow savings and investments in such a manner that it would grow without the big bite of taxes. Not only that – as in the case of 401Ks – employers could opt to match a certain percentage of what the employee put in to their 401K. Anybody that understood the impact of these incentives has no doubt that the concept provides a real opportunity to build wealth over time.

However, most employees find it hard to not have a need (imagined or otherwise) to tap into savings for emergencies or that irresistible new thing they've always wanted. Understanding this fact of human nature, the architects of ERISA put in stiff penalties that tried to prevent the self-plundering of these important savings accounts. Most assuredly, even back in 1974, the analysts in the government saw the impending Social Security demographic dilemma. They new that the American people needed to take more responsibility for their own retirement needs as the government looked at the big bulge of baby boomers moving toward retirement age. Yes, ERISA was an enlightened flash of insight.

As the years have rolled by, the yet to be solved problems of Social Security have made the ERISA laws even more important and have prompted new amendments to the law to allow individuals to become more responsible in providing for much of their future retirement needs with the adoption of the Roth IRA and several adjustments to the limits of qualified income that can be sheltered and also some more flexibility for emergency access of the retirement funds without incurring penalties.

So, the bargain is: if you want to have your savings grow unfettered by the ravages of taxation, you need to make sure that you play by the rules established by ERISA.

Effectively, your IRA/401K is a trust. That trust is set up to make sure you don't squander the funds before you need them. So, to help insure that all ERISA rules are complied with, the trust is required to have a TRUST ADMINISTRATOR to make sure there are proper reports and a CUSTODIAN to hold the funds so you can't get at them and to make sure there are no infractions of ERISA guidelines.

Administrators take care of all the paperwork and required reporting and they usually place your funds with a qualified custodian. The original rules stated that banks and insurance companies were automatically granted authority to act as qualified custodians but any other business entities need to apply to the IRS to become a qualified custodian. Investment institutions, as regulated by the SEC (Securities and Exchange Commission), soon followed on the list of qualified custodians. However, there are companies who applied and received IRS custodian qualification who are not part of the mainstream Investment industry.

As part of the rights of being a qualified custodian, exactly what investments – as defined in IRC section 509 – are used is up to the discretion of the custodian. Needless to say, the Securities industry chose those things they were most familiar with so as to assure they were acting in the best interest of the fund beneficiary (you). As the Securities industry is in the game of capturing accounts and making commissions on transactions, they have been able to become "joined at the hip" when it comes to IRA/401K custodianship.

However, if the owner of the trust (being you) wants to find a qualified administrator and custodian, there are no restrictions.

So the 1st Step to Freeing Your IRA From Wall Street's Control: Find the Right Custodian

Find a bank, insurance company or independent agent to act as your administrator and custodian *if* they allow you to act as the investment advisor for your IRA/401K. Remember, it is totally legal for you to act as your own investment advisor and to invest in a whole range of investments, as spelled out (or absent from the non-qualified list) in IRC 590. This, of course, includes Real Estate.

The Self-Directed IRA/401K

"Self-Directed IRA – An IRA in which the IRA holder/owner directs the investment purchase."

So, the first step is to find a qualified administrator and custodian who will allow you to direct your own IRA and invest in Real Estate. Keep in mind that both of these differences with the "normal IRA/401K" are perfectly legal. It just needs to be set up correctly and maintained within the clearly specified compliance regulations.

What You Need Is a Good Administrator

According to Larry Grossman, CFP, CIMA, most of the companies that can help you set up a Self-Directed IRA are IRA administrators, not custodians. They are the front end of the process. Administrators take care of all of the paperwork and required reporting. They usually place your funds with qualified custodians, usually insurance companies or federally insured banks. These custodians typically are glad to give up the paperwork aspect of the transaction and are glad simply to hold the funds.

Most often, an IRA/401K administrator is usually a financial institution that holds funds (custodial services) and provides reporting to the IRS. They also act as a watch dog for IRA compliance issues. But sometimes they can get in the way because under the law, they are accountable for the fulfillment of the law. Remember, the government doesn't trust you with your money. You see, you might squander it away (like they have done such an outstanding job protecting the Social Security Funds). But, if you want to have the compelling benefit of tax deferral, it's important that your chosen administrator and custodian understand what you want to accomplish and that they be certified by the IRS. Of course, they charge for their services.

The Internet is an excellent source for locating qualified administrators and custodians.

Know What You Can't Do

One of the primary principles, in regard to qualifying for tax deferral, is that any investments your IRA makes cannot be for your benefit **today**. Investments must be for your **future** benefit, your heirs, or both. This means if you purchase Real Estate in your IRA, you cannot use it in any fashion until you retire. But that is not entirely true.

The code is actually a little more flexible than it might imply. For example, it allows your friends and some of your relatives to use your property prior to retirement. Let's say you purchase (your IRA/401K purchases) a beachfront or mountain home to eventually become your retirement home. But even though you are specifically prohibited from using your property, many of your relatives are allowed to use it. (A permitted *Third party* – defined as person or corporation that is not a prohibited party. For example, a brother, sister, or uncle are not prohibited parties). And anyone not related to you is allowed. So, they just invite you to come along. (That doesn't mean they can invite you to live there!) The idea is that your qualified investments cannot be for your use until you meet the qualifications for withdrawal without incurring stiff fees and fines.

Prohibited Related Parties

Who is a "related" party that would be prohibited from using the property? The IRS Publication 590 of the IRS Code defines these "disqualified persons" as:

- Your spouse, lineal members of your family (ancestor, lineal descendant, and any spouse of a lineal descendant)
- Your investment advisor or manager
- Any entity in which you hold a 50% or higher ownership

What relatives are not prohibited from using the property?
Your siblings and cousins (or other family members you would rather not spend time with at the beach). However, be advised that if your property is repeatedly and only used by friends and relatives who always invite you as their guest and never pay any rent to use the property, the IRS might infer that you really used it for your own benefit. Even though the usage restrictions are mainly enforced by the honor system, it's probably not a good idea to push the envelope.

You can't use your IRA Real Estate investments for current business use – or can you?

It follows pretty much in line with the concept of future benefits that you can't use your IRA/401K funds to invest in a business that provides you with current benefits. However…

We all know people who push the envelope and this rule is no exception. For example**,** Larry Grossman[1] relates about a group of doctors whose retirement plans own the land and the building out of which their medical clinic operates. In another case, an individual was able to purchase 176 acres of unimproved land from his own IRA and then use that land for himself, personally.

It seems that the Department of Labor (DOL) has some say as to what ERISA restrictions might be exempted. In both cases stated above, the owners of the pension funds were granted exemptions to the usual rules of no current benefit. As a matter of fact, the Department of Labor has allowed more than a few exemptions to the prohibitions stated in the ERISA law.

Needless to say, obtaining exemptions is a complicated thing but it is not impossible. For more information, you can go directly to the DOL's web site, where they list these blanket exemptions and have all of the necessary information required to apply for your own exemption.

The general website is http://www.dol.gov

[1] Larry Grossman **"**What Your Stockbroker Doesn't Want You to Know".

Advantages of a Self-Directed IRA/401K LLC.

Having a Self-Directed IRA is one step toward obtaining complete control. **To obtain a truly Self-Directed retirement account you need the Self-Directed IRA, LLC.** This is the structure that gives you checkbook control. When you simply establish an account with a Self-Directed custodian, you are still required to get permission from the custodian before making each investment. This can be time consuming, cumbersome, and more expensive than it needs to be.

With the Self-Directed IRA, LLC you are then able to make investments the minute you decide to without getting permission from anyone. You have the checkbook. You are in control of your retirement money.

What are the advantages of using a Self-Directed IRA, LLC when investing my IRA in Real Estate?

When buying or selling Real Estate, it can become problematic, unnecessary, and annoying to have to clear transactions with the custodian. Further, with a time sensitive investment it puts you at a huge disadvantage – and what Real Estate purchases aren't time sensitive. If you don't move quickly, you may miss out on a great opportunity.

Think about investing in tax liens and tax deeds sold on the courthouse steps; you need to have checkbook control since payments are due after the auction is completed. With the Self-Directed IRA, LLC you have the checkbook and the authority to write checks so you can make an investment without delay. This ensures that your IRA is able to make the best investments at the best prices.[2]

Want to be more popular with your friends or even make new friends? (Be careful with this one!) **You can make a loan to a friend from your Self-Directed IRA, LLC.** Friends are not disqualified persons under the Code, and therefore, your IRA can make a loan to them for any purpose whatsoever (boat, airplane, hot tub, home improvements, etc.). Of course, you want to make sure that there are proper formalities and reasonable terms to the loan.

One publication recently wrote about using a Self-Directed LLC for IRA/401K accounts:

"The LLC allows revenue made through Real Estate sales and other aspects of ownership (such as tax liens, mortgages and promissory notes) to be deferred and exempt from certain investment penalties. Many other advantages also exist with this arrangement: Should an investor purchase additional property through their Limited Liability Company, there is then **control without custodial conditions**, and transactions such as down payments and paying off balances can be utilized with LLC funds. (This cannot be done with funds from traditional IRAs.) Another advantage is that it offers **investment in Real Estate opportunities** unlike

[2] www.MyRealEstateIRA.com

traditional IRAs by allowing the Limited Liability Company holder to control all transactions and costs. This equates to much lower custodial fees than with traditional IRAs. Plus, **there are "safety nets"** involving Real Estate ventures that are not seen with traditional Individual Retirement Accounts, but similar to such investing outside of such accounts."

But in all things quoting legalities and IRS regulations, it is always best to first consult with a tax attorney to make sure that "a little bit of knowledge doesn't become a dangerous thing".

How to set up an IRA, LLC

The following is a general overview of the basic steps in setting up an IRA, LLC. Each state has a slightly different set of rules and that is why it is important to seek competent legal council. If done improperly, it can do real financial harm in terms of fees and back charges.

1. Form a Limited Liability Company

An LLC stands for Limited Liability Company. It is a form of business entity which is a hybrid of a standard corporation and a partnership. As the name implies, an LLC provides limited liability protection for its ownership in that there is a limited responsibility for company debts and liabilities. It helps provide a firewall between assets of the LLC and those of ownership.

Typically, LLCs don't pay taxes in the business categories but rather "pass through" a specified portion of income and expense to the owners' personal income or loss and reported on the individual's income taxes.

In the context of an IRA, an LLC is a separate legal entity whose tax liability passes through to the owners of the LLC even though the funds might, at the manager's discretion, remain in the LLC. Therefore no taxes will be owed by you for your IRA, LLC unless you elect a distribution from the plan.

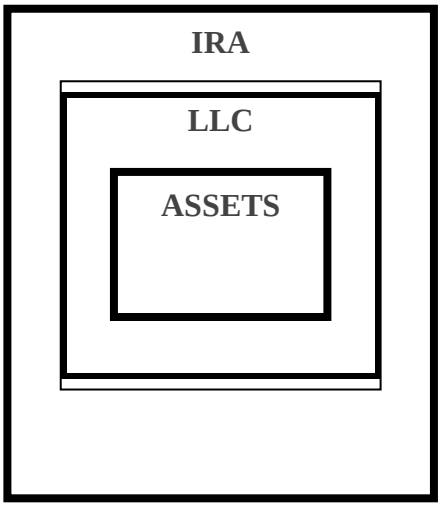
Checkbook Authority: In the Self-Directed IRA, you would have to obtain – at a fee – the approval of the custodian before being able to make each transaction in the name of the IRA. However, with an IRA within an LLC, it is not necessary to obtain approval from the custodian. No approvals or fees. You, the manager of the LLC, just write a check from the IRA, LLC account.

Asset Protection: Many consider that the most important reason to invest through an LLC is asset protection. In many states, if a judgment is entered against you, a creditor may be able to seize or attach your IRA assets. **When the investment is made inside an LLC, this is not the case**. If a judgment is rendered against you, the judgment holder will get a charging order in most states. He will not be able to attach the assets of the LLC but will have to wait for a distribution of those assets. If

there is no distribution then the creditor receives nothing. Also the creditor may have to pay taxes on profits that the LLC earns but does not distribute. This makes the IRA, LLC an unattractive target for lawsuits.[3]

"The IRA that owns a LLC that owns the assets offers the widest choice of investments available and also gives the best asset protection."

[3] SelfDirectedIRA.org



<u>Form Your own LLC</u>: In order to form your own LLC, you must contact the Secretary of State in the state where you wish to operate. Most states have a website where you can download the necessary forms and the instructions on how to complete them. If you can follow instructions you can form your own LLC.

1. Contact your Secretary of State's office or go online to find the website.
2. Download a copy of the required forms and instructions on how to file the forms.
3. Check the fees necessary to file the forms.
4. Complete and sign the forms.

Contracting Incorporation Services

There are attorneys and many companies that will handle the formation of a limited liability company for you. They will prepare and file the necessary documents. Additionally, these service providers can provide additional services that you may find useful such as obtaining your Employer Identification Number (EIN), serving as the Resident Agent for the LLC, etc. However, as fees and services vary, please contact each company and determine the range of services each is providing together with the cost to make an informed decision.

2. The LLC Operating Agreement

A key document in the whole process of establishing the LLC is the Operating Agreement. This document needs to be specifically designed to fit the needs of your LLC and also meet the requirements of the Self-Directed IRA. Moreover, a copy of the Operating Agreement will be required by the Custodian of your Self-Directed IRA and also by the bank where you will have your LLCs checking account. Further, it is recommended by authorities such as www.SelfDirectedIRA.org that it is not a good idea to accept the generic form of the Operating Agreement that most state kits might come with. With that in mind, it is important to make sure that the LLC Operating Agreement meets every letter of the laws of incorporation and the IRS regulations as they pertain to Self-Directed IRAs.

3. Membership Certificates

Similar to stock ownership, a LLC issues certificates to denote ownership rights. Your IRA will be a member of the LLC and the membership certificates are exchanged for deposited funds. The membership certificates are transferred to the IRA custodian. You may find it beneficial to have other members as owners of the LLC. Your Self-Directed IRA may just be one owner of many who use the LLC as an investment vehicle.

There may be no state required format for membership certificates, but most will show the name of the member and the date of issuance of the certificate. Certificates are signed by one or more LLC officers, typically the President and Secretary. A certificate normally does not show the exact capital, profits, or voting interest of a member, instead it recites the member is entitled to the rights and subject to the responsibilities of membership as set out in the Articles of Organization and the Operating Agreement of the LLC[4].

[4] ibid

4. Obtaining an EIN

An EIN (Employee Identification Number) is required by The Internal Revenue Service for your Limited Liability Company. In order to obtain an EIN, you will need a filed copy of the Articles of Organization that you filed with your state of choice. You can complete the form SS-4 online at: Internal Revenue Service SS-4 Online Application (www.irs.com).

Below, you will find complete instructions on how to fill out the form. You will need a filed copy of your articles of Organization, which the Secretary of State in the state which you filed will send back to you after it is accepted for recording. You will need the date of formation from this document to complete the SS-4 form.

Line 1. Insert the legal name of your limited liability company

Line 4a and 4b. Insert the address that you want all the mail from the IRS sent to.

Line 6. Insert the county and state where the business is located. If you have a Registered Agent on your Articles of Organization with a different address than your mailing address, use the county and state from the Registered Agent.

Line 7a. Insert the name of your current custodian. Your IRA that is being held by the current custodian is a member of your limited liability company.

Line 7b. Insert the tax identification number of your current custodian here. Call your current custodian to get their tax identification number.

Line 8a. If your limited liability company has only one member check the "Other" box and write "Disregard 8832" in the field. Your entity is disregarded for tax purposes and 8832 is the applicable form.

Line 9. Check the "Started a New Business" box and write "Investments" in the field.

Line 10. Insert the date your limited liability company was formed in this box. The date is listed on the filed copy of your Articles of Organization. You can usually also find it on your Secretary of States website.

Line 11. Write "December" in the field.

Line 14. Check the "Other" box and write "investments" in the field.

Line 15. Write "Investments" in the field.

Line 16. Check the "No" box. This line is asking whether the entity listed in Line 1 (your newly formed LLC) has ever filed for an EIN before, you will check no even if you as an individual have previously filed for an EIN.

Third Party Designee. Complete this area if you want your tax professional, attorney or other third party to be able to view your application and answer questions regarding your limited liability company.

Signature Box. Complete this area with your name and title, phone number, fax number, date, and signature.
The IRS will immediately issue you an EIN.

You will need an EIN, Articles of Organization, and Operating Agreement in order to open a bank account for your Self-Directed IRA, LLC[5].

5. New Custodian for your Self-Directed IRA

As the IRA account holder **cannot serve as the custodian of his or her own account**, you will need to find a Self-Directed IRA Custodian that specializes in Real Estate. To do so, search the internet under terms such as "Real Estate IRA" or "Self-Directed IRA." The reason that this specific terminology is important is that the financial industry in the 1980s found it helpful to distinguish the Self-Directed IRA from other IRAs that focus on stocks and bonds (by far the majority of IRAs). Needless to say, it's important to select a custodian knowledgeable about the types of investments that you're interested in, because the custodian holds title to the Real Estate or other investments made by your IRA. Remember, **the custodian will hold the membership certificates of your LLC**.

It is a good idea to diversify your IRA investments and you might consider having a portion of your retirement funds in a standard IRA or 401K with an equities investment brokerage and your Self-Directed IRA with a custodian specialized in Real Estate and other types of investments.

Custodian Fees

Fees can vary widely among custodians, as can the flexibility of the service they offer. Keep in mind that all rents collected from property owned by the IRA must be deposited to the IRA. Another difference with the LLC is that the manager (it can be you) may collect, deposit, pay associated fees, and write checks on the LLC account. This is an important distinction between the Self-Directed IRA and the regular Self-Directed IRA in that maintaining “at arms length” transactions are much more flexible with the LLC variety. This is very important in not jeopardizing the tax differed status of the IRA.

It should be noted that this only applies when the IRA directly owns the investment. When the investment is made by the LLC, the LLC can manage and collect the rents.

[5] **ibid**

Below is a list of some custodians specializing in Self-Directed IRAs

- **PENSCO** (www.penscotrust.com)
- **Entrust** (www.theentrustgroup.com)
- **TASC** (www.advisorsquare.com)
- **Sunwest Trust** (www.sunwesttrust.com)
- **Equity Trust Company** (www.trustetc.com)

6. Open Self-Directed IRA Bank Account

After the funds from your existing IRA or 401K has been transferred to your new Custodian, you will need to then move funds from the custodian to your new Self-Directed IRA, LLC. Typically, any bank or brokerage service will require most of the following:

- The account needs to be in the name of your LLC – not your name.
- The account needs to be opened in the state of organization of your LLC.
- The account needs to be a checking account.
- The bank will require a copy of your Articles of Organization and a copy of your Operating Agreement. They will also need your Employer Identification Number (EIN).

7. Invest in the name of your Self-Directed IRA, LLC

Make sure that all assets are taken in the name of the Self-Directed IRA that is within the LLC. To do otherwise may disqualify an investment from tax preferences and bring about heavy fees.

Purchasing investments with your Self-Directed IRA, LLC

As this paper is focused on purchasing Real Estate, it is still a good idea to diversify your overall investment portfolio. The general idea is that some industries and sectors go through rough periods and if you don't have "all your eggs in one basket", you stand a better chance of improving the overall portfolio return. Thinking along this line, perhaps it might be a good idea to have part of your investment funds set up a standard IRA or Roth IRA (more about this later) and have an investment brokerage act as custodian. They specialize in their types of investments (stocks, bonds, mutual funds, etc). For Real Estate matters, use your Self-Directed IRA, LLC.

Prohibited Transactions

The IRS has prohibited investments in the following categories. Some of the prohibited investments are:

- Life Insurance Contracts
- Collectibles such as:
  - Artwork
  - Rugs
  - Antiques
  - Metals
  - Gems
  - Stamps
  - Coins
  - Beverages (wine etc.)
  - Stock in a S-Corporation
  - Other tangible personal property (???)
- See Internal Revenue Code Section 401 (IRC § 408(a) (3)) for full details

The IRS really wants you to be planning for your future and not benefiting today. Call it "enforced differed gratification" and to attempt to keep us from pushing the envelope, the IRS has come up with some definitions of not only what kind of transactions don't qualify for special tax treatment but also what defines a "disqualified" persons from engaging in business dealings with your retirement money. When you see the words "you" and "yourself" it means you and all other "disqualified persons." Indeed, you can become your own worst enemy if you aren't aware of what Uncle Sam will and won't let you do with your money. Here are some examples:

- You cannot sell, exchange, lease or basically do anything with assets that belong to or will belong to your IRA or LLC. For example: Don't try to sell your house to the IRA or charge yourself rent.
- The income from the property the IRA owns belongs to the IRA. You cannot pay yourself a property management fee or any kind of fee for that matter when it comes to dealing with the assets of the IRA. However, under the LLC, you can act as manager of the assets within the trust.
- You cannot make loans with IRA funds to yourself. Likewise, you cannot personally guarantee loans for the IRA or LLC purchases. You can make loans to "qualified" persons (see definitions).
- While you can manage the business dealings through the LLC, you cannot provide goods, services or facilities to the IRA or LLC. For instance, don't use your old refrigerator in a rental unit owned by your IRA.
- You cannot *directly* benefit from the IRA, LLC investment. Don't even think about starting a business and paying yourself a salary.

- You cannot use a vacation home your IRA owns for your personal vacations. (However, you can be invited by a qualified person to the property) Likewise if the IRA owns a business, you cannot use the business assets for your own benefit.

Who are Disqualified Persons?

Fortunately, the list is short:[6]

- The IRA owner.
- The IRA owner's spouse.
- Ancestors (Mom, Dad, Grandparents).
- Lineal Descendants (daughters, sons, grandchildren).
- Spouses of Lineal Descendants (son or daughter-in-law).
- Stepchildren or step grandchildren
- Investment advisors.
- Fiduciaries – those providing services to the plan.
- Any business entity i.e., LLC, Corp, Trust or Partnership in which any of the disqualified persons mentioned above has a 50% or greater interest.

It is interesting to note that the following are not "disqualified" persons:

- Brothers and sisters.
- Aunts, uncles, cousins, etc.
- Friends
- Strangers

How to make a Real Estate Transaction with your IRA or 401K

Your IRA/401K can own property with other persons or entities. For example, your IRA can jointly own property with your self. Suppose there is a property you think is a good investment but don't have enough money in your IRA. One of the ways to purchase the property and use IRA money, you – as an individual – can provide a portion of the capital and your IRA the balance.

For Example: If a property costs $100,000, your IRA can put up $50,000 and you personally can put up the balance. In this case, the IRA would own 50% of the property and you personally the other 50%. Of course there are some restrictions.

For instance, you must pay 50% of associated expenses such as maintenance, taxes, etc and the IRA pays its 50%. If the property needs $10,000 in improvements, the bill would be paid 50/50.

If it's an income property, 50% of the income can come to you personally and 50% goes into the IRA (the IRA portion pays no taxes).

[6] www.irs.gov

Keep in mind that any proportion can be owned by the IRA but all payments and income are proportional. Also, can you live in 50% of the property (?)

There are no limits to the number of associates who can own joint title with your IRA as long as there is a strict accounting of how the IRA income and expenses are used. Also, special attention should be paid to qualified and disqualified persons.

Also, your IRA/401K can own property under the name of your LLC. This can certainly help with privacy issues. For example, your LLC can take title to property. However, it's important to note that you can't sell a corporation you already own to your IRA. This would be considered **"self-dealing". In other words, you can't derive a benefit (monetary distribution) from your IRA to pay for an asset you own outside of the trust.**

If you are thinking of having the IRA, LLC purchase property outside of the United States jurisdiction, some countries may not allow a foreign corporation to own property. So be advised that your LLC may need to become a part owner in a foreign company to enable your IRA to have foreign property assets.

How to Leverage your IRA/401K

The most common form of Real Estate transaction is one that makes use of an equity down payment and the financing of the outstanding balance. So naturally, one of the most common questions is: how can IRA funds be used in a leveraged transaction?

In an effort to protect your nest egg, the government won't normally allow your IRA to use assets as collateral for a loan. However, a recent paper put out by Gran Pacifica (http://www.granpacifica.com) states that some loans can be made if they are in the form of a **non-recourse promissory note** and the IRA holder is not allowed to personally guarantee the non-recourse note. The underlying property itself must be the only collateral for the loan.

However, many lending institutions may make loans to an IRA depending on many factors such as the subordinating of other security outside of the trust. It is not unusual to see a traditional lending institution make loans but normally not more than 70% of the market value of the property. Payments to service the loan come from existing fund assets, rents derived from the property in question, new plan deposits within the restrictions of the type of IRA/401K (to be discussed later) or a combination of all of these fund assets.

Limitations on Tax-Sheltered Income When Your IRA Borrows to Buy Real Estate

If you choose to have the IRA make a loan and borrow from a lending institution, this may raise the specter of what is called an Unrelated Business Taxable Income (UBTI) event. For example, if your IRA purchases an income producing property and the IRA finances 60% of the purchase price, the IRA may become liable for taxes if the income exceeds the proportion of the financed portion. Let's say the IRA bought a property for $125,000. The IRA puts up $25,000 in cash and finances the remaining $100,000. During the year, let's say the property generates $10,000 in income. Seventy five percent of the generated revenue can not be sheltered from taxes since it has been generated from non IRA funds. In other words, taxes would have to be paid on $7500 whereas $2500 would be sheltered (differed) from taxation. The question then become, what happens to the normally deductible interest and depreciation? This brings up some questions about some of the benefits of owning Real Estate – particularly income property – in your IRA/401K

Some Pros and Cons of Using Your IRA to Buy Real Estate

Some say it is not such a good idea to buy Real Estate with your retirement plan while others are passionate about the idea. Like anything, there are pro's and con's.

Some positives

- You get to access capital in your IRA for Real Estate purchases, and this can provide a very valuable alternative to stocks, especially when stock market returns may be weak. Real Estate may help reduce overall risk of your retirement investment portfolio.
- You also get the tax-deferral benefits of IRAs while investing in Real Estate. For instance, if you are an active Real Estate investor and like to "flip" properties, capital gains taxes are tax deferred.
- Income from rental properties is tax differed.
- Variety of ways to make money (rent, flip, capital appreciation)

Some Negatives

- You lose most of the annual write-offs and depreciation you normally enjoy when owning Real Estate outside of a retirement plan.
- Real Estate is not as liquid as other more traditional investments.
- There are more related soft costs such as insurance, state and local taxes and maintenance issues that require more hands on managing traditional IRA/401K investments.

To learn more about Buying Real Estate Through your IRA/401K, go to the IRA website at: www.irs.gov and then select IRS publication 590

Review: IRA & 401K Pension Plans

The following examples are only some of the most common ways to use IRA funds for investing in Real Estate. But before making any commitment, **always consult with a CPA or Tax Attorney to make sure not to violate IRS restrictions or contribution limits.**

IRAs have evolved to make it more beneficial for most individuals. These improvements have been undertaken with the view that more responsibility will be placed on each individual to provide for their own retirement. Moreover, if the economy continues to grow, individuals can provide for themselves much better than the defined benefits of a shaky social security system. As a matter of fact, individual retirement plans are a form of "coerced" savings that provides capital for the economy to continue to grow.

Traditional IRA

Eligibility

All workers under age 70 1/2 at the end of the calendar year (same rule applies to Spousal IRA).

Contributions

Made with pre-tax income. Reduces gross taxable income for that year by the amount contributed.

Tax Benefits of Contributions

Fully deductible if you don't have an employer retirement plan.

Nondeductible if you're covered by an employer retirement plan and have a modified adjusted gross income above $60,000 (single) $85,000 or $160,000 (married filing joint, and depending on who has a retirement plan at work).

Partially deductible if you have a modified adjusted gross income in 2006 between $50,000-$60,000 (single) or between $75,000-$85,000 (married filing joint).

Maximum Contribution (per individual)

Under age 50: **$5,000**

Over age 50: **$6,000**

Rollovers

No annual limit on amount rolled over from another qualified plan

Conversion

NA

Earnings/Withdrawals
Untaxed until withdrawn.

Distributions
Must begin distributions by April 1 in year after turning 70 1/2.

If distribution less than minimum annual requirement, penalty of 50% of amount that should have been distributed.

Distributions before age 59 1/2
Generally taxable and subject to 10% early withdrawal penalty, unless exceptions: $10,000 not penalized (but taxable) if withdrawn for first-time home purchase. Full amount taxable but not penalized for certain other situations.

Roth IRA

Eligibility
No age restrictions to open.
Fully eligible if income below $95,000 (single) or $150,000 (joint). Increasing limits apply if income is higher; not eligible if income above $110,000 (single) or $160,000 (joint).

Contributions
Made with after-tax income.

Tax Benefits of Contributions
Not deductible. If converting from IRA to Roth IRA, the taxable portion of the IRA is taxed in year of conversion.

Maximum Contribution (per individual)
Same (but if you have both an IRA and a Roth IRA, the total contributions can't exceed Standard IRA

Rollovers
Same as Std IRA

Conversion
May convert from IRA to Roth IRA if income is $100,000 or less.

Earnings/Withdrawals
All qualified distributions after age 59 1/2 are untaxed. Could be penalty if not in account for at least 5 years.

Distributions
No distribution requirements, except possibly in case of death
Distributions before age 59 1/2

Earnings generally taxable and subject to 10% early withdrawal penalty, unless exceptions:

$10,000 not penalized (but taxable if in account for less than 5 years) if withdrawn for first-time home purchase. Any earnings taxable but not penalized for certain other situations.

401K

This type of individual retirement plan is sponsored by employers and offered to company employees. This program has many advantages such as employer matching, ability to take out funds to purchase a primary residence and other customized rules usually set up by the company and in observance of IRS regulations. However, the government agency responsible for compliance is the Department of Labor. Because of the variability of these plans, it's important to find out exactly what your employer's plan entails. Some employers may allow for investment in Real Estate.

Some plans do allow for the investment of Real Estate as defined by the limitations set out by the IRS and ERISA.

Eligibility

The employer has flexibility in determining which employees are eligible. As an example, an employer may impose age and/or service requirements before an employee can participate in the plan.

Types of plan contributions

- Based on specific plan provisions, participants can elect to have their employer to withhold money from their paycheck that can be contributed as a tax-sheltered, after-tax or Roth elective deferral contribution.
- Based on specific plan provisions, employers can make matching, non-matching or discretionary contributions.

Contribution Limits for employer sponsored plan

The maximum amount allowed tends to make the 401k popular with employees at different levels of pay. For example, an employee who is 50 years old or older any time during the year is now allowed additional pre-tax contributions of up to $5,000 (total contribution of $20,000). So if you are an older person entering the workplace for the first time, you do have the opportunity to make up for missing out on participating in a retirement plan.

Self-Directed or Solo 401K

A little-known secret is that some of the independent IRA custodians that permit Real Estate within Self-Directed IRAs also allow Real Estate within Self-Directed 401ks – if the 401(k) is set up for a business owner with no employees. Legislative changes now enable owner-only sole proprietors, partnerships, and corporations to establish a 401(k) and **contribute up to $40,000 each year**! Couple this with the ability to purchase Real Estate, and a person with an owner – only business can have a powerful resource for directing their retirement destiny. Considering the tremendous growth of home based businesses and sole consultancies, this fact can be a tremendous way to rapidly build a portfolio of tax-differed investments – particularly Real Estate.

Not only can you contribute up to $40,000 US dollars (USD) a year to the Solo 401K plan. If you are aged 50 or over, you are also allowed a $2,000 USD catch-up contribution. Once you have reached your $40,000 USD yearly contributions, no further contributions are permitted except for the $2,000 USD catch-up allowances.

There are other benefits to the Solo 401K retirement plan. You may be eligible to take out a loan. If you have $100,000 USD already in the plan, you can apply for a $50,000 USD loan. You are also permitted to deduct your Solo 401K contributions from your taxes, and the Solo 401K investment will build on a tax-deferrable basis

The Solo 401K is a relatively new retirement plan, and as such, it is not commonly offered by many financial establishments. The best research for the Solo 401K plan at the moment can be conducted through an Internet search. In this way, you should be able to find businesses that offer this type of plan.

Roth 401K Retirement Plan

This plan is one of the many 401k retirement plans available through the employee benefit plans. A Roth 401k retirement plan takes most of the beneficial aspects from the 401k retirement plans and the Roth IRA. Roth 401k retirement plans let employees decide how they want to contribute. All contributions are then calculated on after tax basis.

401K Roll Overs

In today's work environment, high turnover seems to be very common. As a result, employees need to be aware of how to move their employer sponsored 401K plans to their personal IRAs. Moreover, as many 401K employer plans have employer matching programs and other beneficial terms as compared to most traditional IRAs, employees may want to roll their personal IRAs into a new employer's plan. It is up to the employee to make sure that their pension funds are moved within the context of the established rules.

Remember, funds must be rolled over within 60 days.

401Ks

Rolling over from an employer 401K plan is a little different. As most employer plans vary as to certain requirements, special attention needs to be given to the “vested” portion of your 401K. For instance, your employer’s plan might have a matching contribution plan whereby the company matches the employee contributions up to a certain amount (guaranteeing an immediate 100% return!) However, if you leave the company you're working at, whether you quit or you're fired, you can't just decide to transfer your account balance to another IRA or 401K. Normally, an employee doesn’t get to keep the employer contributions unless the employee has fulfilled a seniority requirement (time on the job). For example, the balance on your statement may show you've got $50,000 in your 401K account. But if your employer has been matching part of your contributions, that money may not be entirely yours. Some of that money may not yet be vested. So your transferable account balance might be $35,000.

Typically, you can open a standard retirement account at a bank or brokerage house and then move it to your new employer once you find a new employer. Or you could decide to have both your IRA and a 401K. Or, of course move your funds to your own Self-Directed IRA.

Naming an IRA beneficiary

It’s quite normal for us to push our own demise from our thought processes – particularly if you are younger. But if you don’t take care of this little administrative chore, you can make the lives of your survivors more stressful during an already stressful event (your death).

A beneficiary is a person or people who will receive the disbursements of your IRA(s) after you die. You can name whomever you want, though your beneficiary may not qualify as what the tax codes call a "designated beneficiary." Designated beneficiaries for IRAs must be a human rather than a corporation, with the exception of a qualified trust.

Things You’ll Need:

- Beneficiary designation form

You must name a Person as Your Beneficiary for IRAs

Your Spouse.
Name your spouse on a beneficiary designation form to officially qualify her as a designated beneficiary. Using this form can **prevent any future tax problems** that might arise with disbursement if you do not name a beneficiary. He or She will also have the option to roll over the IRA into her own name.

Nonspouse
Name a "nonspouse natural person" as your beneficiary if you are not married yet and want to have a designated beneficiary for your account. This can be anyone to whom you are not married. **Nonspouse beneficiaries are not allowed to roll over IRA funds to their own accounts**. Also, you can choose multiple designated beneficiaries, as long as they are all humans. More than likely, these would be multiple children. If you want to leave part of your IRA to a person and part to a charitable organization, this is not considered "designated," because the charity is not a natural person.

Split human and nonhuman
Create a second IRA to split your distribution between a human being and a nonhuman entity. Put your wishes into writing, so that in the event of your death, a portion of your existing IRA will be used to create a new IRA. The proceeds of that new IRA can be left to a company or charity, and the original IRA's beneficiary will remain the designated human being[7].

Naming a Qualified Trust as Your IRA Beneficiary

Step 1:
Create a trust with terms that are valid in your state. Your IRA administrator can help you determine the terms of a legal trust, including beneficiary rules, contribution limits and early withdrawal penalties.
Step 2:
Prepare a trust knowing that its terms will be irrevocable both during your lifetime and after your death. If you change the terms, the trust no longer qualifies as a designated beneficiary.
Step 3:
Name human beneficiaries of the trust so it will qualify. You have the option of using generic terms such as "spouse" or "children" instead of using proper names. This can be beneficial in the event of a divorce and remarriage.
Step 4:
Give a copy of the qualified trust to the trustee of your IRA[8]

[7] **www.irs.gov**
[8] **ibid**

Making Contributions to your Self-Directed IRA

Step 1:
Decide what year your IRA contribution is going to cover. You have until April 15 of next year to make a contribution for this year. Different years will have different maximums. For example, the maximum in 2007 is between $4000 to $5000 depending on your age, but goes up to $5000 to $6000 for 2008.

Step 2:
Factor in your age. If you're 49 or younger, you can contribute $4000 in 2007 or $5000 in 2008, while those in the 50 plus crowd can contribute $5000 in 2007 and $6000 in 2008. Each year after 2008, contribution maximums increase by $500.

Step 3:
To see if you are eligible to add IRA catch-up contributions to your yearly contributions, consider the following: If you're older than 50, you can contribute a maximum of $1000.

Step 4:
Ask your financial advisor, accountant or IRA fund manager any questions you might have. These experts are acquainted with your personal retirement savings situation and can give you the best guidance. Remember, these tax laws and IRA rules can change. Moreover, the chances are that changes will be more favorable for the owner of the IRA as the social security program comes under pressure to change.

Conclusion

Over the years, Real Estate has proven to be an excellent investment. It's a simple fact that growing populations need housing. Because most of us have at least a fundamental understanding of buying and selling Real Estate, individuals shouldn't be precluded from getting involved with investing in something they are much more familiar with than the "traditional IRA" that is left in the hands of "experts" who – on their own – restrict IRA investments to products they promote. However, all investment advisors will parrot the phrase "investment diversification is essential for long term risk reduction and improved profits". Yes, you can invest in Real Estate through REITS (Real Estate investment trusts) but it is not the same as owning tangible Real Estate where you live. It is a different investment altogether.

Perhaps the best plan to follow is to have a traditional IRA for equities investments and hope the investment advisors can make solid long term choices and a Self-Directed IRA, LLC for other types of investments where you feel competent to make the investment decisions.

A Formula For Using An IRA To Purchase Real Estate

Steps

1. You buy a house in your IRA and then sell it.
   - Buy price $80,000.

2. Sell property but you are the bank
   - You sell for a higher price than what you paid
   - $100,000 sales price @ 8 ½% interest = $768.92/month
   - $768.92/month x 12 months = $9,227.04/year back into your IRA

Summary

Today's IRA of $80,000 IRA money is on a bank CD @ 5% = $4082.20/year

• Benefit: You make $9227.04/year as compared to the $4,082.20/year you are making on your bank CD today.

That is more than double your CD $ or an additional $5,144.84/year.

• If they pay all 30 years that is $276,811 back into your IRA for your $80,000 investment

Special Notes:

• You can adjust the monthly mortgage so it works for the buyer

• They pay all taxes and insurance because you actually sell it to them

• If they don't pay you then you can foreclose and fix the house to sell again but you do this with IRA money.

• Goal is to have them pay it off in 30 years but you can balloon it if you want in 5-10-15 years, etc.

• Since you buy in your IRA, you have NO mortgage payments

• I picked 8 ½% interest because I want to get as much as I can without them refinancing. You could charge 10% but in time they might refinance

•Another option is to rent it:

On this house we are getting $768.92/month rent but,

a) You would be paying taxes and insurance
b) You would be dealing with tenants
c) That is why I prefer to sell outright to them and I am their bank

Appendix

Examples of some common IRA Real Estate Transactions

- **Creating a Real Estate Investment company**

There are other ways for a person to use Self-Directed IRA funds to invest in Real Estate. For example, a group of friends decided to use IRA funds to form a Real Estate investment company. The group uses funds to buy and flip properties. All tax deferred profits are re-distributed back into each shareholder IRA. All gains are tax deferred.

- **Option to buy**

For those who don't have a lot of funds available in their IRAs, they can still get involved in Real Estate investing by using retirement funds as an "option to buy". In this scenario, locate a property that is undervalued. Once the price and option time period have been negotiated, the option consideration fee is paid from the Self-Directed IRA and the option is issued in favor of the IRA. The option contract is recorded at the courthouse to secure the position. Then marketing skills are put to work to sell the property. When a buyer has been found, they must pay your IRA the difference between the two selling prices in order to clear title at the courthouse and proceed with a closing on the property. The gain from the sale is tax deferred.

- **Buy into an existing mortgage**

The concept is to find a "highly motivated seller" looking to quickly sell their property. The buyer takes title to the property "subject to" the existing mortgage. Title to the subject property is transferred to the IRA of the buyer and the IRA holder agrees to pay the existing mortgage from the funds in the IRA. As with all IRA or retirement fund Real Estate purchases, the property cannot be used for any personal benefit other than as an investment. This restriction is called the "self-dealing" rule and requires that the investor of IRA funds not receive an immediate benefit other than for investment purposes.

The above examples are only some of the most common ways to use IRA funds for investing in Real Estate. But before making any commitment, **always consult with a CPA or Tax Attorney to make sure not to violate IRS restrictions or contribution limits.**

Glossary of Terms

Administrator – An administrator is a financial institution that holds funds (custodial services) and provides reporting to the IRS. They also act as a watch dog for IRA compliance. These are quite often bank related corporations.

The use of administrators and custodians can be very confining and intrusive since they are actually responsible for your investment and they tow a tight rope.

Self-Directed IRA Advisor – Advisors come in many shapes and forms. A true advisor has a team of experts that can help you create a portfolio, assure compliance and helps you define your strategy.

Attorney groups – There are just a few attorneys that understand the requirements to properly structure and implement an instrument so that it is compliant. You can pay some very high prices and receive a comparable product.

Custodian – A financial institutions that holds funds for client use. They are required to follow IRS compliance directives. Often an administrator and custodian are the same institution.

Checkbook control – The ability to write a check for any investment you desire within the IRS compliance directives. There is often no reporting to the administrator.

Debt Instrument (mortgage) – A very common product that may be purchased with a Self-Directed IRA. These instruments can be very profitable and predictable with low risk factors.

Facilitator – There is a difference between a facilitator and advisor. Facilitator offer very little help in the design and selection of appropriate structure design and investment selection. They can point but helping with the details are generally not there expertise.

Investment implementation – Determining risk tolerance and investment are key elements to an appropriate portfolio inventory. For example, what elements affect and/or define a risk in a Real Estate investment.

Investment portfolio for Self-Directed IRAs – An inventory of investments that are appropriately allocated for risk and return strategy.

Investment Strategy for Self-Directed IRAs – The how, when and when of purchasing investments.

Investment Types – Examples, Real Estate, debt instruments or securities. An advisor can help you determine what is best for you a facilitator can only point you in a direction.

Individual Retirement Arrangement (IRA) is the most basic sort of retirement arrangement. There are two types of IRAs. Traditional and Roth IRAs.

LLC – Limited Liability Corporation. A favorite instrument for checkbook control.

LLC manager – An investment manager of the LLC. Generally this is the IRA holder himself, although it can be a third party.

Non traditional investment products – Real estate, debt instruments, options or many others.

One-on-one training – The process of helping you the client **understand** the process and help you **define** your investment policy and strategy.

Real Estate in a Self-Directed IRA – The purchase of Real Estate with an IRA, Roth IRA or any other qualified retirement instrument.

Roth IRA – A Roth IRA is also a personal savings plan but operates somewhat in reverse compared to a traditional IRA. For instance, contributions to a Roth IRA are not tax deductible while contributions to a traditional IRA may be deductible. However, while distributions (including earnings) from a traditional IRA may be included in income, the distributions (including earnings) from a Roth IRA are not included in income. For both IRA types – traditional and Roth – earnings that remain in the account are not taxed. A Roth IRA can be established at the same types of financial institutions as a traditional IRA.

Self-Directed IRA – An IRA in which the IRA holder/owner directs the investment purchase.

Third party – Defined as person or corporation that is not a prohibited party. For example, a brother, sister, or uncle are not prohibited parties.

Traditional IRA – A traditional IRA is a personal savings plan that gives you tax advantages for saving for retirement. Contributions to a traditional IRA may be tax deductible – either in whole or in part. Also, the earnings on the amounts in your IRA are not taxed until they are distributed. The portion of the contributions that was tax deductible also does not get taxed until distributed. A traditional IRA can be established at many different financial institutions, including banks, insurance companies and brokerage firms.