



# Self-Directed IRA Rules and Regulations

Your Blueprint for Building Continued Success

EQUITY TRUST COMPANY®

# Knowing the Rules is the Foundation for Success

While a self-directed IRA offers nearly limitless investment options, it does come with some strong but straightforward rules and regulations. This brief report provides some basic information on those self-directed IRA dos and don'ts.

## The Self-Directed IRA: Legal Since 1974

People often ask if self-directed IRAs are legal. The answer is, yes, they're absolutely legal.

Since the IRA was created in 1974, investing in alternative assets has been allowed by the IRS. In fact, IRS publication 590, which deals with IRAs, states only what investments are prohibited; All other investment types are permitted as long as the IRS rules governing retirement plans are followed.

## So what's not permitted in a self-directed IRA?

- Art work
- Rugs
- Antiques
- Metals\*
- Gems
- Stamps
- Coins
- Alcoholic beverages
- Life insurance policies

\*An exception to the list is that an IRA can hold gold, silver, platinum and palladium bullion which meet minimum fineness requirements.

## Allowable IRA investments include:

- Residential real estate
- Commercial real estate
- Undeveloped or raw land
- Real estate notes
- Promissory notes
- Limited partnerships
- LLC and C-Corp
- Tax lien certificates
- Equipment leasing
- Livestock
- Foreign currencies
- Stocks, bonds and mutual funds
- Private placements (debt and equity)
- Structured settlements
- Precious metals
- Factoring
- Accounts receivable
- Oil and gas

Plus, the list of alternative investment options keeps growing as investors find areas where they have expertise. These include timber, renewable energy, grain cars, medical equipment and more.

### ***"If a Self-Directed IRA is Legal, How Come I Haven't Heard of it Before?"***

While self-directed investing in an IRA has been around since 1974, it hasn't received large attention because most custodians who offer retirement accounts focus on traditional investments like stocks, bonds and CDs. So there's a misperception that these are the only investment options for retirement plans.

Often, when an individual asks a broker or advisor, "Can I invest in non-traditional assets with an IRA?" the answer is, "I've never heard of that." or "No, you can't do that." What it really means is that you can't invest in alternative assets at that bank or brokerage because they're limited by the types of investments they can offer.

## Eligible Self-Directed Plan Types

In addition to Traditional and Roth IRAs, you can make alternative investments with these account types:

- Simplified Employee Plan (SEP)
- Savings Investment Match Plan for Employees (SIMPLE)
- Solo 401(k)
- Roth Solo 401(k)
- 401(k) Safe Harbor Plan
- Roth 401(k) Safe Harbor Plan
- Health Savings Account (HSA)
- Coverdell Education Savings Account (CESA)

## Self-Directed IRA Cornerstones

To ensure that you continue to build your self-directed IRA within IRS code, it's essential to follow these guidelines:

### Arm's-Length Investing

IRS rules state that when it comes to a self-directed IRA investment, you and the investment must be at arm's length. In other words, you can't directly benefit from an asset owned by the IRA.

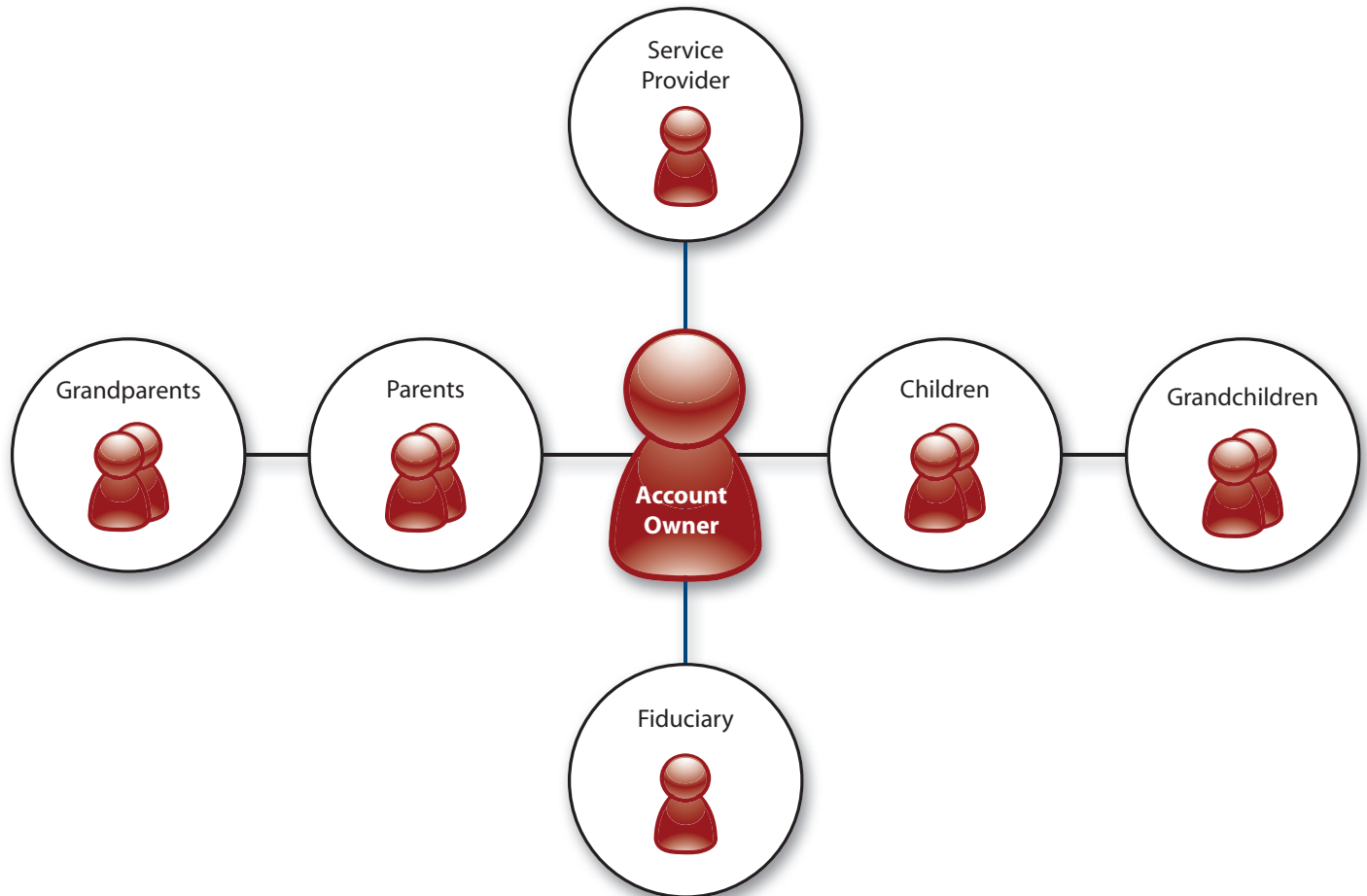
Remember, the IRA is built to provide for your future and is not intended to benefit you now. It's considered an "indirect benefit" if your IRA is engaged in transactions that, in some way, can benefit you personally. This is strictly prohibited. Examples include:

- **Personally Using IRA Property:** Using real estate purchased through your IRA as an office, personal residence, vacation home, retirement home or office space is not allowed.
  - » So if the IRA purchases a foreclosed beachfront home, you can't live in it or rent it to yourself.
  - » However, it can be rented to others. And your IRA can sell the property, too.
- **Receiving Personal Benefits from Your IRA:** You can't lend yourself money from your IRA. Additionally, you can't pay yourself or a company that you own to do work on an investment owned by your IRA.
- **Revenue and Expenses:** Since a self-directed IRA is for retirement, it's important to remember that all expenses related to an investment are paid from the IRA and all profits are returned to the IRA.
  - » For instance, if your IRA owns a rental property, all revenues (rent) are returned directly to the IRA; all expenses, such as maintenance and taxes, are paid directly from the IRA

## Disqualified Individuals

IRS rules dictate that a self-directed IRA may not: buy an investment from, sell it to, or otherwise be involved with disqualified persons. Disqualified persons include you, the IRA holder, and your ascendants and descendants. That means up and down your family tree. Here's a more detailed listing of disqualified individuals:

- You, your spouse, parents, grandparents and great grandparents, children and their spouses, grandchildren and great grandchildren – and their spouses
- Service providers of the IRA – like the custodian you choose and your attorney, CPA or financial advisor



## Prohibited Transactions

The IRS has a list of prohibited transactions for self-directed IRAs. Generally, a prohibited transaction is any improper use of your IRA account by you, your beneficiary or any disqualified person. Examples include:

- Borrowing money from the account
- Selling property to the account
- Receiving unreasonable compensation for managing the account
- Using the account as security for a loan
- Buying property with the account for personal use

## About Equity Trust

Since 1974, Equity Trust has specialized in the custody of alternative assets in self-directed IRAs, 401(k)s and more. These accounts enable you to invest in both traditional assets and nearly unlimited alternative assets in a tax-sheltered environment. Today, we're one of the nation's leading self-directed account custodians serving more than 128,000 individuals and businesses nationwide with approximately \$10 billion of retirement plan assets under management. Discover more at [TrustETC.com](http://TrustETC.com).

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