Self-Directed IRA Basics

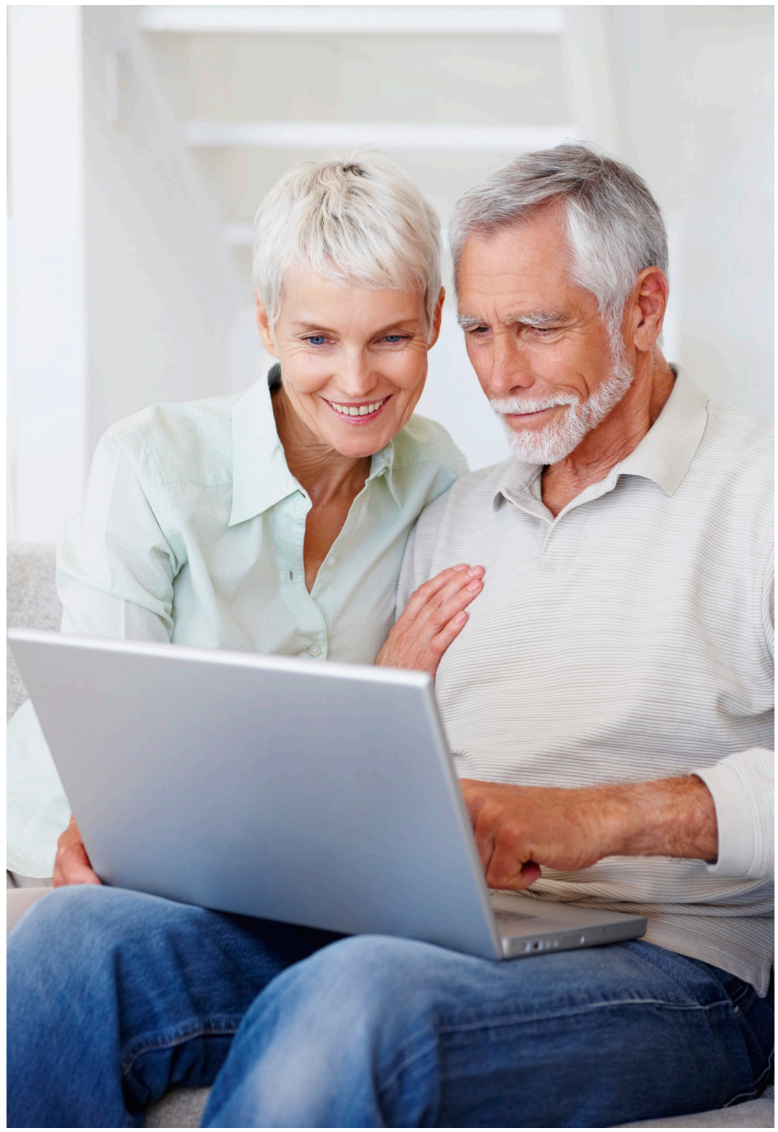
Learn How to Secure Your Retirement While Benefitting From Potentially Tax-Free Profits

Discover the Power of Self-Directed IRAs

Can you earn tax-free profits investing in real estate? It's possible. You don't have to pay 20 to 50 percent in taxes to the IRS after every investment deal.

Today, many investors just like you are successfully investing in real estate and other alternative assets – as well as traditional assets like stocks and bonds – and they're **not** paying taxes on the profits. Not paying taxes on profits means more money for retirement.

With impending funding issues for Social Security and the dramatic reduction in company pensions, it's imperative to begin saving for your retirement today. Don't get stuck working until you're 70, 75 or 80 years old because you weren't prepared for retirement.



Nationwide, a growing number of people are utilizing government-sponsored retirement plans (IRAs) to realize tax-free and tax-deferred profits on all of their investments. A combination of emerging trends has made this possible:

- **The knowledge that IRA benefits (tax-free and tax-deferred profits/ tax deductions) apply to all types of investment possibilities –** like real estate, private placements, mortgage notes, deeds of trust, and even livestock – not just traditional assets such as stocks, bonds and mutual funds.
- **The existence of a self-directed IRA custodian like Equity Trust –** an organization that's dedicated to administering IRAs with both traditional (stocks and bonds) and non-traditional assets (real estate and private placements).

Many people are preparing for retirement investing in stocks, bonds and mutual funds. However, if you're not a stock market expert and are more familiar with real estate investments or other alternative assets, a self-directed IRA is an ideal option.

In addition to not paying taxes on your real estate profits, a self-directed IRA allows you to invest in assets you're most familiar with to secure your financial future.

On the following pages, you'll discover how taxes can devour your hard-earned profits and how tax-free real estate investing with a self-directed IRA can help. You'll also learn what types of IRAs are right for you to maximize your investment and potentially save you money. After you discover which plan best fits your needs, you can start experiencing the benefits of compounding interest and tax-free profits.

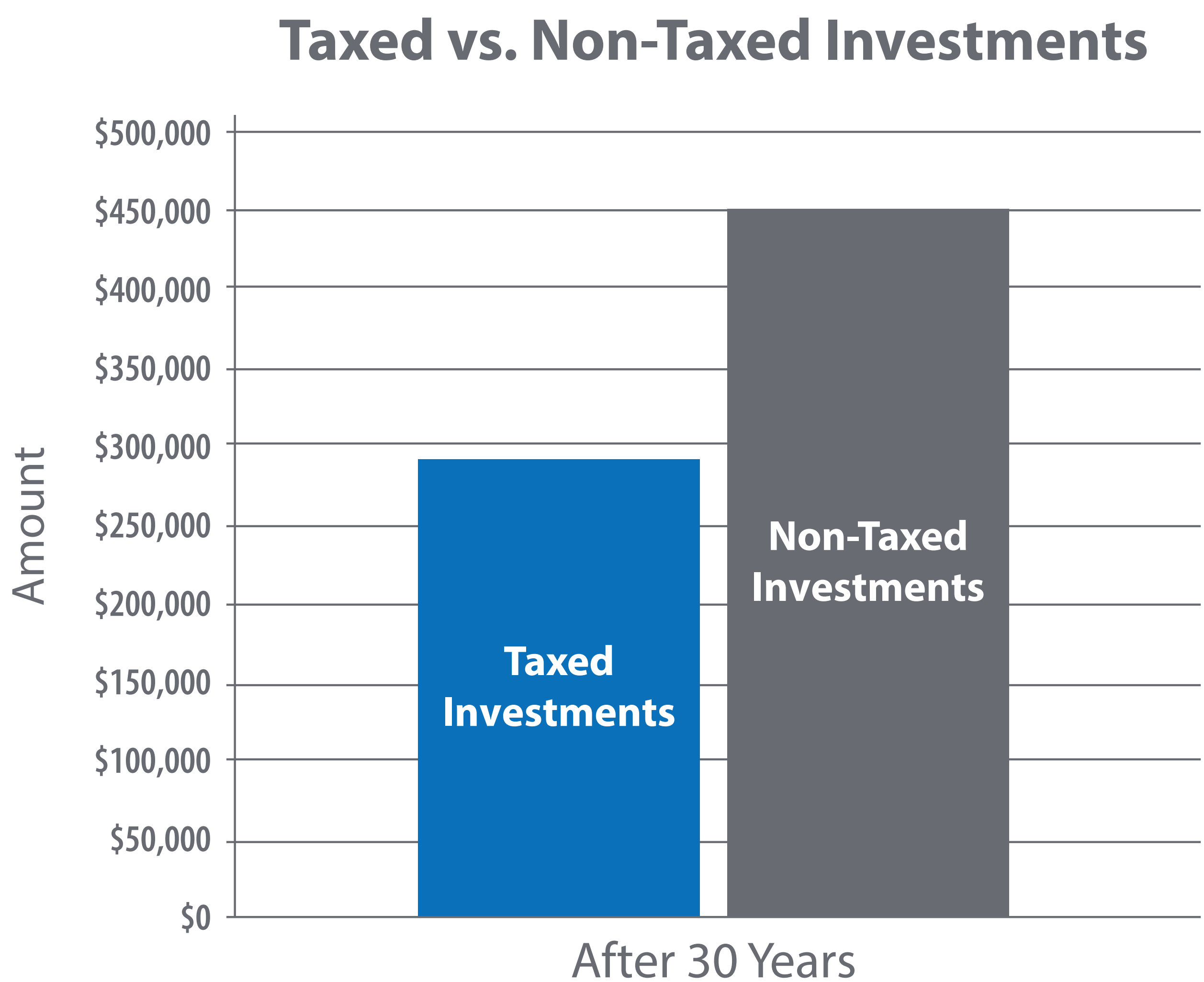
The Effect of Taxes on Your Money

If you're an active investor, or even just a beginner, you probably are aware that the biggest nemesis to making money is the effect of taxes. Let's look at an example that illustrates something you probably already know – taxes eat away at your hard-earned profits.

If you were to contribute $4,000 a year to an IRA and assume an 8-percent rate of return for 30 years, your IRA would be worth $449,133 at the end of year 30.

If you made the same investment in a non-tax sheltered environment, assuming a 31-percent tax rate, it would be worth $286,752 instead of $449,133.

That's 43 percent less, a difference of $162,381 (as shown in the chart below).



The Secret to Tax-Free or Tax-Deferred Real Estate Profits

One of an IRA's greatest features is that it allows you to enjoy the true power of tax-deferred compounding interest. Compound interest occurs when interest is earned on a principal sum along with any accumulated interest on that sum. In other words, you're earning interest not only on your original investment money, but also on the interest earned from the original money.

Compound interest can occur with any investment you make, but the "true" power of compounding interest is obtained when you make an investment in a tax-deferred environment, like an IRA.

By taking advantage of an IRA's tax-deferred status, you don't have to pay tax immediately on your earnings (like the sale of property or rent collected). You're able to enjoy the power of compounding on ALL of your profits, not just what's left after taxes.

Now apply those benefits to your real estate or alternative asset investing. Tax-deferred profits on your real estate transactions allows you greater flexibility to make more investments quickly or to just sit back and watch your real estate investment grow in value without worrying about taxes.

> **"The most powerful force on Earth is compounding interest."**
>
> *- Albert Einstein*

To illustrate the power of compounding interest, we'll use an example of two cousins, Joe and Susie. Joe works in manufacturing and Susie works in retail. Due to their age difference, Joe invested $10,000 from his savings account in his IRA in 1985 right after he started his manufacturing job. Susie received a $15,000 bonus in 1995, which she invested. Both never contributed to their accounts after the initial investment, but each earned 8 percent annually after-tax on the investment.

Even though Susie's initial investment was greater ($5,000 more), over time, Joe's money will earn $66,305 more than Susie's money due to the power of compounding interest as shown in the graph below.

The Power of Compound Interest

	Balance in 1985	Balance 1995	Balance 2025	Net Gain
Joe's IRA	$10,000	$21,589	$217,245	$217,245
Susie's IRA		$15,000	$150,940	$135,940

Everything Sounds Great, But is This Legal?

When learning about self-directed IRAs, people often become skeptical and think it might be too good to be true. Not paying taxes on real estate deals for the rest of your life does sound pretty good.

Well, it's not too good to be true. In fact, since the IRA was created in 1974, investing in real estate and other alternative assets has been legal. *IRS Publication 590* (dealing with IRAs) identifies which investments are prohibited. These investments include artwork, stamps, rugs, antiques, and gems. All other investments, including stocks, bonds, mutual funds, real estate, mortgages, private placements, or even livestock are perfectly acceptable as long as IRS rules governing retirement plans are followed.

Most investors haven't heard of this opportunity because most IRA custodians don't offer IRAs that allow you to invest in real estate and other non-traditional investments.

Often, when you ask a custodian/trustee, "Can I invest in real estate with an IRA?" they'll say, "I've never heard of that" or, "No, you can't do that." What they really mean is that you can't do this at their company because they only offer stocks, mutual funds, bonds, or CD products.

If your retirement nest egg is dependent on your investment knowledge, you should be able to invest in what you know – whether it's real estate, tax liens, mortgage notes, or stocks and bonds.

Only a self-directed IRA custodian will allow you to invest in all forms of real estate or any other investments not prohibited by the IRS with an IRA.

An established self-directed IRA custodian like Equity Trust will offer a variety of accounts that can hold traditional and non-traditional assets. It's simply a matter of finding which account is right for you.

Not only can a self-directed IRA with Equity Trust save you tens of thousands of dollars on the deals you're doing now, but it can also help secure your family's future.

Will You Be Able to Retire at 65… at 70… at 75?

Will you have enough money to...

- keep your current lifestyle in retirement?
- live better in retirement?
- retire when you want to?
- last throughout retirement?

You should be asking yourself these very questions and if you don't have answers, consider doing something right now to find them.

With potential Social Security shortfalls on the horizon, your retirement future is squarely in your own hands. Ironically enough, while our government has difficulty keeping its own finances in order, it's created wonderful individual retirement plans that will help secure your financial future. As the compounding interest example shows, you can't afford to wait any longer to do something about it.

Investors have many IRA plans to choose from, but to maximize the tax-savings (and increase your investment profits) for today and the future, you need to pick the right plan for your situation.

Which Account Will Fit My Needs?

When you're ready to take advantage of tax-free profits on your real estate deals, you'll have many different IRAs to choose from – both individual and small business plans (and you'll find out later, that as a real estate investor, you most likely qualify for the small business as well as individual plans).

The most popular individual plans are the traditional IRA and the Roth IRA. Both plans offer tax advantages to help you save money for retirement, but they differ in a few ways.

Traditional vs. Roth

By asking one simple question, most people have a better idea which plan is right for them. Do you want to pay taxes on the seed or the crop?

In both plans your investment profits are growing tax-free, but the differences are when you receive the tax-advantages to the principal investment and yearly contributions. With a Roth IRA you don't receive a tax deduction on your yearly contributions, but when you take your money out of the account you don't have to pay any taxes. A traditional IRA gives a tax deduction every year based on your contribution, but you'll have to pay income tax when you take your money out of the account.

Why should I enroll in this plan?

If you prefer to get deductions over the years as your investment grows, then a traditional IRA is probably your best choice. If you don't want to pay taxes when you take your money out (a distribution), then the Roth IRA (and its tax-free distribution) is right for you.

The Roth IRA has a special qualifying income requirement, though. Visit www.TrustETC.com/contributions to see the income limits for the current year.

If you don't qualify for the Roth IRA, later in this chapter you'll discover a plan (Roth Individual(k)) that has Roth advantages without the income limits.

If you have questions about the self-directed investing process, call an Equity Trust Senior Account Executive at

855-673-4721.

Higher Contributions and Higher Deductions With Other Popular Retirement Accounts

In addition to the traditional and Roth IRAs, there are a number of other plans for individuals and small businesses that are ideal investment vehicles for investors interested in real estate and other alternative assets.

As a real estate investor, you qualify for SIMPLE, SEP, Individual(k) and Roth Individual(k) plans. While some of the plans seem only appropriate for small businesses, it's important to note that real estate investors, like you, qualify for these plans in addition to a traditional or Roth IRA.

The advantages of these plans are larger contribution limits and larger tax-deductions, plus your spouse, if employed, is eligible to participate. The best part is that you can still contribute to standard individual plans like a traditional or Roth IRA in addition to a small business plan like a SIMPLE or SEP.

Here's a quick overview of each account (Contribution limit information can be found at www.TrustETC.com/contributions):

SIMPLE (Savings Incentive Match Plan for Employees)

If the contributions for a Traditional or Roth IRA aren't enough, a SIMPLE might be your best option. Often the choice of sole-proprietors and small business owners who want to enjoy higher contribution limits.

SEP (Simplified Employee Plan)

The SEP allows for contribution amounts up to 25 percent of your salary, up to a set contribution limit. The downside of the SEP is that it requires the same contribution percentage for all employees. If you have employees, the SEP could be cost-prohibitive.

Individual(k) (or Solo(k))

The Individual(k) is often the most attractive plan to investors, if they qualify, because it combines elements of the SEP and SIMPLE. You can make a salary deferral contribution, plus a profit-sharing contribution of 0–25 percent of your salary.

Roth Individual(k) (or Roth Solo(k))

The Roth Individual(k) has the same contribution limits as the standard Individual(k), but with a similar tax treatment to the Roth IRA (e.g., tax-free distributions). This plan benefits high-income individuals who can't qualify for a Roth IRA because of income limits.

Does the Rising Cost of Health Care and Education Worry You?

Relax, self-directed IRAs aren't the only tax-advantaged accounts that allow you to invest in real estate and alternative assets. The two accounts below allow you to take advantage of your real estate/non-traditional asset knowledge to pay for health and education costs.

The Health Savings Account (HSA) can help you reduce your health insurance premiums by as much as 70 percent, and HSA contributions are tax-deductible (subject to limitations). Set aside funds in your HSA to pay current and future medical expenses.

The Coverdell Education Savings Account (CESA) is a trust or custodial account created for the purpose of paying the qualified education expenses of the designated beneficiary. When the account is established, the designated beneficiary must be under age 18 or be a special needs beneficiary. The annual contribution limit is $2,000 for each beneficiary, no matter how many CESAs are set up for that beneficiary. Contributions are not tax deductible, but amounts deposited in the account grow tax-free until distributed to pay for qualified education expenses.

Visit www.TrustETC.com/contributions for details on the current contribution requirements for HSAs and CESAs.

Investing With A Self-Directed IRA Isn't Any Different Than What You're Currently Doing

Now that you understand the basic advantages of self-directed IRA investing, how powerful and profitable it can be for your future, and what plans best meet your needs; you probably want to learn how it actually works. Buying real estate or non-traditional assets in your IRA is just like buying those assets without an IRA, with just a few minor differences.

In no time at all, you'll be enjoying tax-free or tax-deferred profits on your investments by following the four steps that demonstrate how easy it is to invest in real estate, or just about anything else, with a self-directed IRA.

The following example uses a typical real estate deal.

1. Establish an account with Equity Trust

First, you must establish an account with Equity Trust. For more information on why Equity Trust is the right choice for your self-directed IRA needs, visit www.TrustETC.com or call **855-673-4721.**

Setting up an IRA with Equity Trust usually takes less than 10 minutes and can even be done online or over the phone.

2. Fund your account

Next you have to fund the account, and this is just as easy as opening the account. There are two ways to fund your account.

Contributions

- You can contribute to your account through a check or wire transfer, adhering to the chosen account type's contribution limits.

Transfer/Rollover

- In most cases, if you have an existing retirement plan such as an IRA, 401(k), or 403(b), these funds can be transferred to a self-directed IRA, allowing you to make real estate IRA investments. Check with your current and previous employers regarding transferring such qualified plans.

Call **855-673-4721** and a Senior Account Executive will walk you through the transfer process.

3. Investing

Now that your self-directed IRA is open and funded, the next step is to make your investment. The following shows the similarities and differences involved in a self-directed IRA investment. The biggest difference is the potential tax benefits you receive when completing a real estate deal inside a self-directed IRA.

Finding An Investment Property, Negotiating A Deal

After putting out a number of offers to purchase a property, one was accepted that met your criteria. You found a neglected house in a decent neighborhood. It needs some fixing-up, but you're convinced with a just a little work it could be a great house and a great deal.

In this example, you have enough money in your self-directed IRA to purchase the property outright. After settling on a purchase price for $125,000, you'll have to sign a purchase agreement.

Special Note: *At this stage you're able to act as agent for your IRA and sign the purchase agreement (this isn't the case later). This is the only time you can sign documents on behalf of your IRA.*

One of the most common mistakes (and cause of delays) in real estate IRA investing is improper titling of the investment documents. Before a title company draws up documents or you create a purchase agreement, make sure everyone is aware of the correct titling for an investment held in your IRA. Frequently, the IRA owner's personal name is incorrectly used on the title of the property or in a purchase agreement.

Remember you and your IRA are two separate entities, and as such, the property needs to be titled in the name of your IRA and not you personally.

The correct title for most real estate IRA investments is:

Equity Trust Company custodian FBO (for benefit of) Your Name IRA

I've Signed A Purchase Agreement, What's Next?

You've found a great opportunity, negotiated a good deal to purchase and signed a purchase agreement. To complete the agreement, you need to provide earnest money to the seller. Since you're purchasing the property outright, you agree to provide the seller with $500 for consideration. You can't use personal funds for the earnest money – all funds related to your purchase must come from your self-directed IRA.

You need to fill out a Real Estate Direction of Investment (DOI) form to remit funds ($500) to the seller for earnest money. This form tells Equity Trust the specifics on the property you'd like to buy, how much money you need, and where to send the funds. When submitting your DOI, please include a copy of your purchase agreement.

It takes approximately three business days to process the DOI and remit funds (Equity Trust can process and fund a DOI in one day through expedited processing). You might be used to exchanging funds the same day the contract is signed, but IRS regulations require funds to come directly from your IRA account. While this is different than typical real estate transactions, deals outside of an IRA do not enjoy the benefits of tax-free profits.

Preparing for Closing

After signing the purchase agreement and providing earnest money, you're ready to meet with a title company or closing attorney to draw up documents for the closing.

You'll need to submit another Real Estate DOI to Equity Trust (similar to the one submitted for the earnest money) for the remaining price of the property to close ($124,500). Once the DOIs and closing documents are filled out properly, you're ready to close. Closing documents, which are prepared by a title company or closing attorney, are forwarded to Equity Trust to be signed on behalf of your IRA.

Special Note: It's at this point in the transaction that most errors in titling occur. Make sure the title company or closing attorney titles documents in the name of your IRA. Also, you cannot sign the closing documents; Equity Trust must sign them on your behalf.

If the contract asks for your personal Social Security number, you will use Equity Trust's tax ID number for your IRA account.

Funds Remitted From Your IRA

With everything in place, funds ($124,500) will be remitted (via Equity Trust) to the title company or closing attorney for your new property. Funds can be remitted by check, cashier's check or, the most popular option, bank wire.

How Long Will This Take?

As with the earnest money, it generally takes three business days for regular processing. If you need to close a deal fast, Equity Trust offers expedited service and can process your documents the same day, provided there are no corrections and time sensitive deadlines are met.

After the closing and the sale are final, the last step is to send original documents to Equity Trust for safekeeping.

Your IRA Owns the Property!

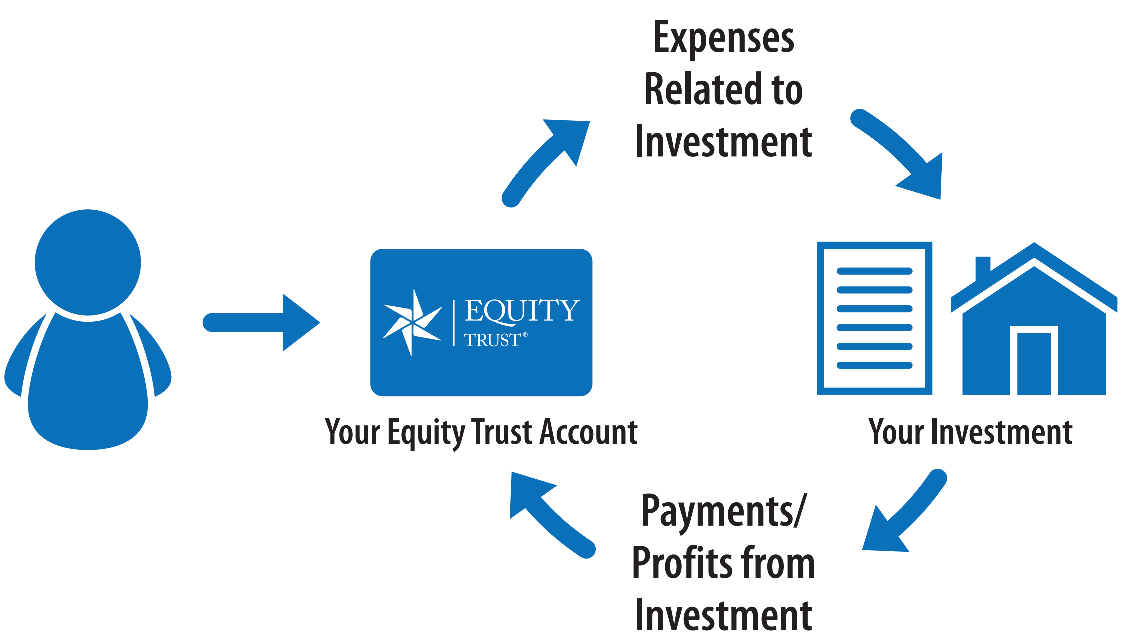
Your IRA now owns the property you wanted, at the price you wanted. Now you're positioned to enjoy tax-free profits.

4. What happens after your IRA owns the property?

   Now that your IRA has purchased the property you need to remember two things:

   - **Expenses:** Any expenses associated with the property (maintenance, improvements, property taxes, condo association, general bills, etc.) must come from the IRA. You can submit a Bill Pay DOI to Equity Trust or use our Online Bill Pay system to pay your expenses.
   - **Cash Flow/Profits:** All profits must return to the IRA, meaning all income (rent) and profits (selling of property) are deposited back into your IRA account – tax-free. Equity Trust will provide pre-filled deposit coupons with a confirmation letter after your initial investment is made. Attach the coupons to the checks to be deposited. The deposit coupons must accompany all funds returning to your IRA.

In no time at all, you could be investing in real estate and other alternative assets, receiving tax-free or tax-deferred profits.



15 Minutes Could Save You Thousands

Call now at **855-673-4721** for a FREE Consultation with an Equity Trust Senior Account Executive.

Raise Capital with Self-Directed IRAs

How to use Private Funding Sources and Your Self-Directed IRA

Are you tired of not having enough money for potentially profitable investments? With a self-directed IRA, you can take control of your financial future and raise capital on your own to make formerly out-of-reach deals possible.

It's conceivable to use your self-directed IRA and other investors' retirement plan accounts to fund your deals.

Often times the first step is to make others aware of the possibilities of their own retirement plans – the ability for them to be in control and to invest in alternatives to the market.

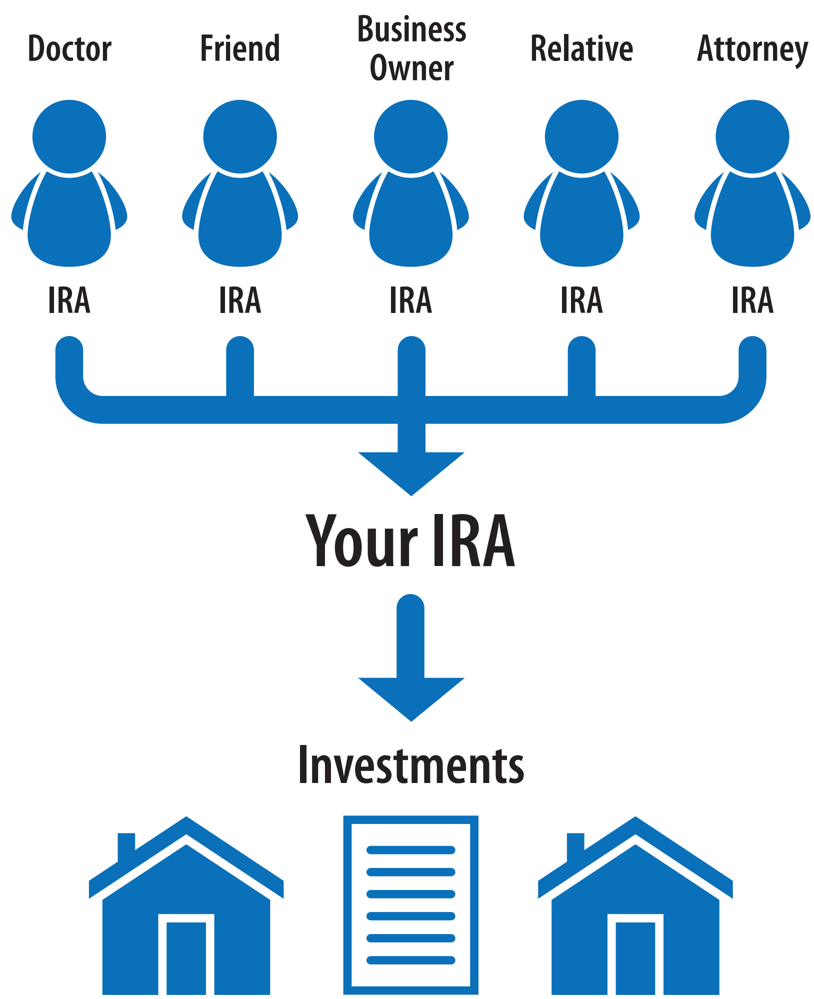
What are the Benefits to You and the Private Sources?

By using their existing IRAs and pension funds, other investors can potentially earn healthy rates of return on the alternative investments, plus benefit from the tax advantages of their retirement plans.

What benefit does your self-directed IRA receive? The opportunity to build your assets quicker by multiplying the potential number of investments you can make in the tax-advantaged environment of a self-directed IRA.

Benefits of Using Private Funding Sources

- Allows you to participate in more deals
- More deals may equal more profits
- Avoid using your own money



An Example of Private Capital-Raising in Action*

Bill is a successful real estate investor that has been doing four to five deals annually. This year he wants to increase his business and do eight to 10 deals. To increase his business, he needs additional funding and he's tired of going to hard-money lenders due to the high cost and slow turnaround time.

When he found a great house that he could buy for $100,000 cash, he decided to turn to a fellow investor. The house needed about $10,000 in repairs, mostly landscaping and some work in the kitchen. He went to a business partner and borrowed money from his IRA, agreeing to pay him 8 percent interest for the time it took to finish the rehab and resell the house. Bill's partner lent him $110,000.

Bill found a seller to buy the updated house for $150,000. After repaying his business partner $118,800 (original $110,000 plus interest of $8,800), Bill had a net profit of $31,200. His business partner was so pleased with their returns, that Bill had no trouble conducting future business with him. In addition, all of the profit for Bill's partner went back into his self-directed IRA tax-free.

**When raising capital for investments, it's recommended that you consult with your legal professional for any applicable state or federal regulations.*

Take Control of Your Financial Future With Equity Trust

Now that you've learned the advantages of having a self-directed IRA and investing in both traditional and non-traditional investments, there's just one thing left to do: call Equity Trust and get started!

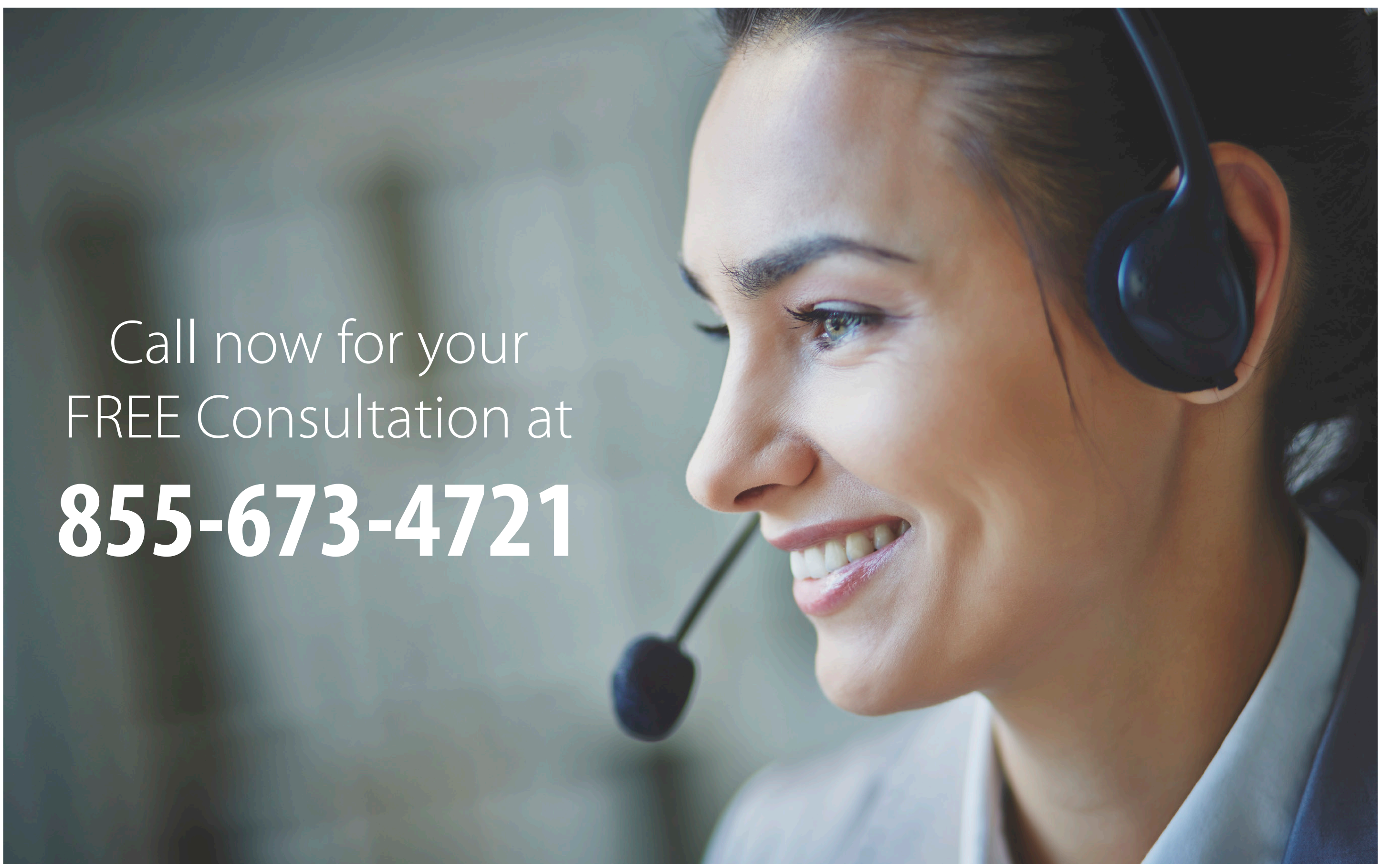
Equity Trust is Your BEST Choice…

- 40 years of experience in educating clients about self-directed retirement accounts
- Custody of $30 billion in IRA assets
- Knowledgeable self-directed IRA specialists ready to serve clients
- All-inclusive fee schedule – clients don't pay fees on every transaction
- An industry-leading online account management and community portal (www.myEQUITY.com), exclusively for Equity Trust clients
- Online trading through our affiliate, ETC Brokerage Services, member NASD/SIPC

Best of all, Equity Trust will walk you through each and every transaction to make sure it's handled accurately and on time.

After reading this brief guide, you're now ready to get started investing with self-directed IRAs. Don't delay. Every day that passes is one less day your self-directed IRA can benefit from the Earth's most powerful force (at least according to Einstein): compounding interest.

For more information about self-directed IRA investing, the plans and services available to you, and how to get started, please contact Equity Trust at www.TrustETC.com or **855-673-4721**.



EQUITY TRUST®

1 Equity Way, Westlake, OH 44145
855-673-4721
www.TrustETC.com

ET0002-07

© 2016 Equity Trust®. All Rights Reserved.