



Self-Directed IRAs: Knowing the Rules Helps
Build the Foundation for Success

Knowing the Rules Helps Build the Foundation for Success

While a self-directed IRA can be a vehicle for a variety of investment options, there are important rules and regulations for you to understand. This brief summary provides basic information on those self-directed IRA rules.

The Self-Directed IRA

Since the IRA was established by the government in 1974, investing in alternative assets has been permitted by the IRS. In fact, IRS publication 590, which references IRAs, lists investments that are prohibited; all other investment types may be permissible as long as the IRS rules governing retirement plans are followed.

What's not permitted in an IRA?

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

**An IRA may hold gold, silver, platinum and palladium bullion which meet minimum fineness requirements.*

Allowable IRA investments may include:

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



How Come I Haven't Heard of a Self-Directed IRA Before?"

While self-directed investing in an IRA has been allowable since 1974, it hasn't received large attention because many custodians who offer retirement accounts focus on traditional investments like stocks, bonds and CDs. 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 are not able to invest in alternative assets at that institution because they're limited by the types of investments they can offer.

Eligible Self-Directed Account Types

In addition to Traditional and Roth IRAs, you can make alternative investments with the following qualified retirement 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 you continue to invest your self-directed retirement account within IRS code, it's essential to familiarize yourself with the rules, including:

Arm's-Length Investing

IRS rules state that 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 retirement 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. Some examples include:

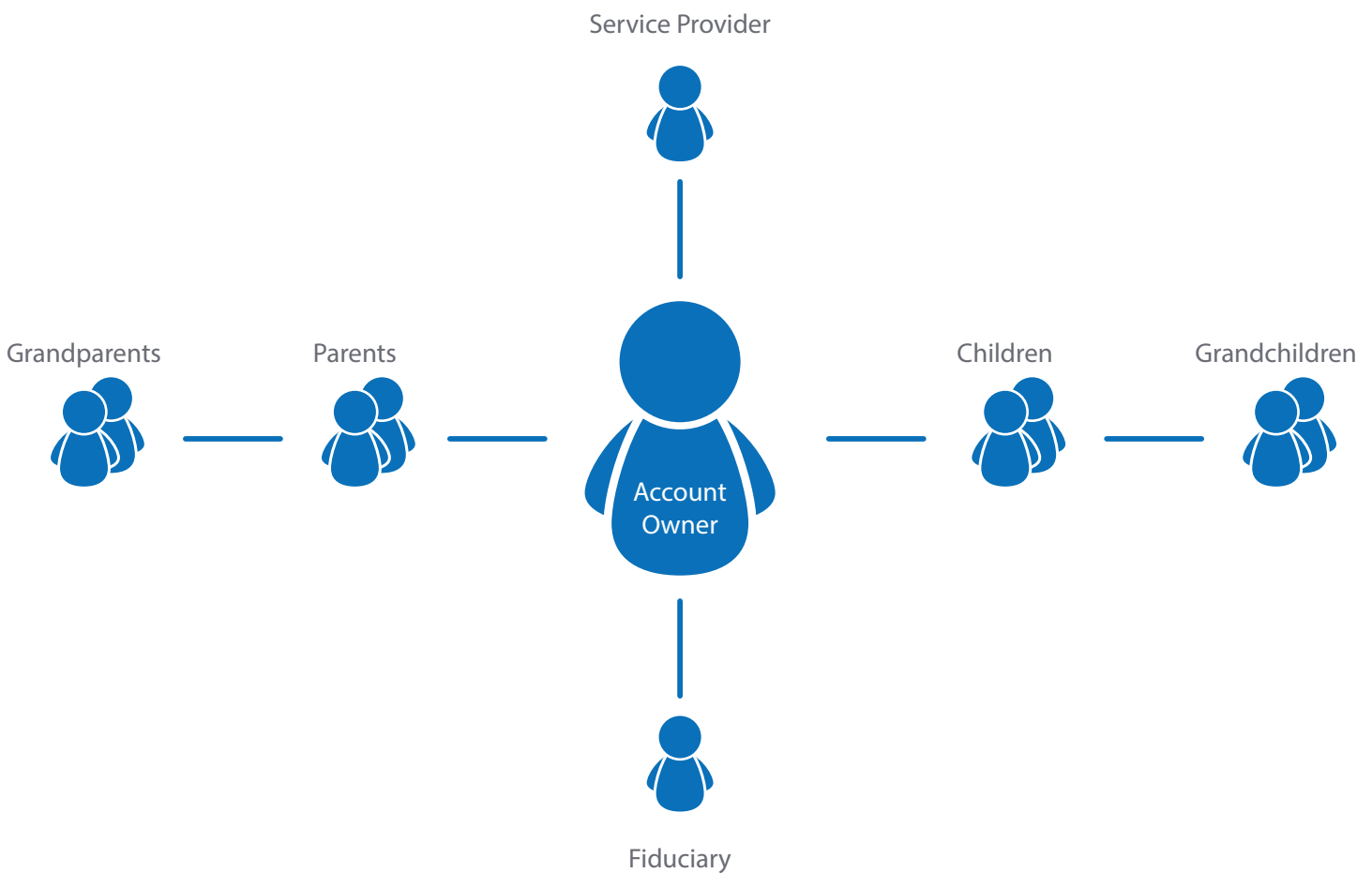
- **Personally Using IRA Property:** Using real estate purchased through your IRA as an office, personal residence, vacation home, retirement home or office space is not allowed.
 - If the IRA purchases a foreclosed beachfront home for example, you can't live in it or rent it to yourself.
 - However, it can be rented to others and your IRA can sell the property.
- **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:** 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 as the account 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



* For more information, see IRS Publication 590 on [IRS.gov](https://www.irs.gov).

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