



Self-Directed Real Estate 101

How Does Real Estate Investing
in an IRA Really Work?



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Part I: Establishing an Account with a Self-Directed IRA Custodian

Equity Trust strives to make the process of opening an account easy and straightforward. Over the last 30 years, our Senior Account Executives have helped hundreds of thousands of investors take the first step to self-directed IRA investing.

Before you begin, there are number of things you should research and review with any potential self-directed IRA custodian. A few questions to ask potential custodians before opening an account may include:



- How long have you been in business?
- Are you a self-directed IRA custodian?
 - It is important to remember that self-directed IRA facilitators and administrators are not able to custody your account. Self-directed IRA or 401(k) facilitators and administrators are not held to the same standards as approved custodians and often do not offer as many services as a custodian, such as the ability to directly hold assets or issue funds from the IRA.
- What's your fee schedule?
 - Is it on a quarterly or annual basis?
 - Do you have additional fees for certain transactions?
 - Am I charged per asset in my IRA?
- How are you insured?
- How are you regulated?
- Will there be an account representative to assist me if I have questions?
- What's the minimum account balance required?
- Do you offer brokerage services? Is it possible to hold mutual funds?
- Can I access my account online? Are forms and documents available online as well?

Answers to these questions will help you determine the best self-directed IRA custodian to meet your needs.

Completing Paperwork

After you've completed your research and selected your self-directed IRA custodian, the next step is to complete an application to open an account. An Equity Trust Senior Account Executive can assist you with the application process.

Information you'll generally be required to provide includes: your name, Social Security Number, date of birth, address, contact phone number, and your designated beneficiaries.

How long does it take to open an account?

Generally speaking, a self-directed IRA can be opened in one to three business days.

What type of accounts can be self-directed?

With a self-directed retirement plan custodian, any retirement plan can be self-directed.

What types of retirement plans are available?

People are often surprised to learn there are several government-sponsored retirement plans available to investors.

The two common account types are the Traditional IRA and the Roth IRA. These accounts are designed for individuals and offer tax-advantaged growth on all profits, but there are differences between them.

Traditional IRA	Roth IRA
<ul style="list-style-type: none">• Funded with pre-tax dollars• If qualified, investors receive a tax deduction for the amount contributed in a given year• Tax-deferred investment growth while inside the account• Taxable distributions when withdrawn from the account• Subject to Required Minimum Distribution (RMD) requirements at age 70½	<ul style="list-style-type: none">• Funded with after-tax dollars (no tax deduction)• Tax-free investment growth while inside the account• Tax-free qualified distributions when withdrawn from the account• Subject to certain income eligibility requirements• Not subject to Required Minimum Distribution (RMD) requirements

For more details regarding income limits and contribution limits, visit www.TrustETC.com/contributions.

Certain Types of Retirement Accounts Allow You to Contribute More than \$50,000

In addition to individual plans, business owners may have the option to take advantage of the Simplified Employee Pension (SEP) or Savings Incentive Match Plan for Employees (SIMPLE) IRAs. Both plans are designed for small businesses but may also benefit self-employed individuals.

The SEP and SIMPLE IRAs allow you to potentially make larger contributions than the Traditional and Roth IRAs. Both IRAs offer tax-deferred growth on all profits and yearly tax deductions. All distributions are subject to taxes.

Health plans can be self-directed, too...

Government-sponsored accounts are also available to help pay for medical expenses.

A Health Savings Account (HSA) is a tax-advantaged account for individuals or their families with high-deductible health plans, allowing them to set aside funds for qualified medical expenses now and in the future.

Pay for your child's education as well...

The Coverdell Education Savings Account (CESA) is available to assist in paying for education expenses. The plan can be self-directed in a tax-free environment and all distributions used for qualified education expenses are also tax-free.

As you can see, there are a number of different types of self-directed accounts that allow you to invest in real estate (or other alternative assets). Depending on your specific situation and financial goals, it may be possible to take advantage of more than one of these plans.

It may also be possible to rollover or transfer an existing IRA, 401(k), 403(b), Thrift Savings Plan, or other retirement account to a self-directed custodian. Part II explains this process in more detail.

Part II: Funding a New Self-Directed Retirement Account

There are three common options to put money into your newly established self-directed retirement account: an out-of-pocket contribution, a transfer, or a rollover.

These funding processes are fairly straightforward, but you should be aware that each process has its own unique requirements. Below is an overview of the processes to fund an account, what materials you need, and approximately how long it may take to fund your account.

Funding Your IRA through Contributions

To make an out-of-pocket contribution to your self-directed retirement account, you must have earned income in the year you plan to contribute.

Eligible income:

Earned income includes: wages, salaries, tips, bonuses, alimony, and other compensation reported in Box 1 of your IRS Form W-2. If you're self-employed, a sole proprietor, or a partner in a partnership, earned income is your share of net income reported on your IRS Form 1040.

Passive income is not eligible:

Some income isn't considered earned income, including: passive income like earnings and profits from rental property, interest or dividend income, foreign income, annuity income and deferred compensation.

What can I contribute annually?

What you can contribute annually depends on which type of IRA you establish. Contribution limit details for the various accounts can be found at www.TrustETC.com/contributions.

How do I deposit money in an IRA? Do I need any paperwork?

To make a contribution, send funds to your self-directed custodian in the form of a check, money order, cashier's check, wire or by credit card. You'll need to designate the correct tax year for your contribution and ensure you do not exceed maximum contribution limits across all retirement accounts you may have (even those at another institution).

Is there a minimum amount I need to contribute when I open an account?

It varies among custodians, but Equity Trust only requires a \$500 minimum contribution to open a new account.

Transfers and Rollovers of Existing Retirement Accounts to a Self-Directed IRA

The second option of funding an IRA is with a transfer. An IRA transfer is when you move funds or assets from an existing IRA to a new IRA. The funds or assets are transferred directly from your current financial institution to Equity Trust.

The third option of funding an IRA is with a rollover. A rollover involves moving funds from a qualified plan, such as a 401(k), 403(b), Thrift Savings Plan or other qualified plan, to an IRA.

A rollover typically occurs when the account owner receives a personal distribution from their previous employer or current provider of their plan and deposits it into the new account. After receiving the distribution, the account owner has 60 days to deposit, or "roll over," the funds into a new account. It may be possible to request a Direct Rollover, where your plan administrator makes the payment directly to your new account.

Funds must be transferred between like accounts:

When moving retirement funds between custodians, it's important the money movement occurs between like accounts. For example: transferring an existing Traditional IRA to a new self-directed Traditional IRA, or a Roth IRA to a self-directed Roth IRA.

What type of paperwork do I need to complete the process?

After completing your self-directed IRA application, you'll complete an account transfer form if you are transferring funds from an existing account. The transfer form must be signed by you and your new custodian. The form will be sent to your current custodian to initiate the transfer. You'll also need to include a copy of your most recent statement when submitting the transfer form. Documentation needed to initiate a rollover will be provided by your current custodian.

If you have questions about this section or self-directed IRA investing in general, please contact an Equity Trust Senior Account Executive at **855-673-4721**.

Do I have to transfer all of my money from my current IRA to my new self-directed IRA?

Absolutely not. You can transfer as much as or as little as you want.

Do I pay taxes when transferring/rolling over from my current custodian to a self-directed IRA custodian?

No. As long as you follow IRS transfer and rollover requirements and are transferring between like accounts, you are not taxed when transferring or rolling over funds or assets from your current custodian or previous employer to an IRA. The exception is when converting an existing Traditional IRA to a self-directed Roth IRA. (See below.)

I already have a Traditional IRA, but I like the idea of having a Roth IRA. Can I transfer from a Traditional IRA to a Roth IRA?

Yes, it may be possible to convert some or all of your existing retirement assets from a Traditional IRA to a Roth IRA – known as a Roth conversion. To do so, you must transfer a Traditional IRA to a Traditional IRA and simultaneously convert it to a Roth IRA. **Please note that this is a taxable event.** The amount being converted will be included in your taxable income in the year of conversion and taxes may also be due on any deductible or pre-tax contributions and earnings. Please consult with your tax attorney, CPA or other financial professional before making any financial decisions.

Do I have to liquidate all of my assets before I transfer my funds?

No. You can liquidate some of your assets, none at all, or choose to transfer your assets in-kind.

Rollovers and transfers are an important financial decision that should not be taken lightly. Please consult with your tax attorney, CPA or other financial professional before making any financial decisions.

Part III: Example of a Self-Directed Real Estate Investment

I've found an investment property. What's next?

After you've found a property to purchase, you need to complete a Real Estate Direction of Investment (DOI) form. This form tells your self-directed IRA custodian the specifics of the property you'd like to purchase with your IRA, how much money you need, where to send the funds, and if documentation requires signing.

Investment must be at "arm's length"

IRS rules state that you and the investment must be at arm's length. In other words, you cannot directly benefit from an asset owned by the IRA.

Remember, the IRA is designed to provide for your retirement and is not intended to benefit you now. You can't receive a direct or indirect benefit from the property purchase. 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.

A few examples include:

- **Personally using property held in the IRA:** Using real estate purchased through your IRA as an office, personal residence, vacation home, retirement home, etc. is not allowed.
- **Receiving personal benefits from your IRA:** You cannot lend yourself money from your IRA or pay yourself, or a company you own, to do work on a home purchased by your IRA.

Additionally, IRS rules state that a self-directed IRA may not: buy an investment from, sell it to, or otherwise be involved with a "disqualified person". A disqualified person includes you as the account holder, service providers of the IRA, fiduciaries, family members of lineal ascent or descent, and entities of which 50% or more is owned directly or indirectly by a disqualified person.

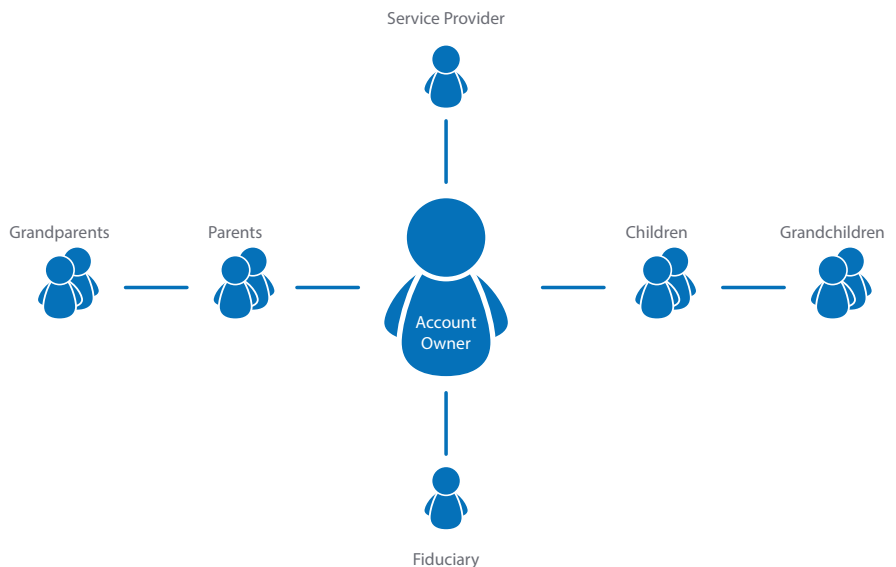
Please note: This information is provided for educational purposes only and should not be construed as tax, legal, or investment advice. Whenever making an investment decision, please consult with tax, legal, and accounting professionals.

Refer to the IRS for more information: [Internal Revenue Code 4975](#) and [IRS Publication 590](#).

Additional documents you'll need to complete the investment

For a self-directed IRA custodian to process your investment, additional documentation may be needed to support the transaction. Your custodian may require the purchase agreement, settlement statement, HUD statement, sales contract, etc.

In addition, documents should include your self-directed IRA custodian's tax ID number instead of your personal Social Security number. If you're unsure of your custodian's tax ID, please contact the custodian before sending in the documentation.



Ensuring proper titling: you and your IRA are not the same

One of the most common mistakes (and cause of delays) of investing with an IRA is improper titling of the investment documents. Before any documents are created, make sure you notify the title company of the proper titling.

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. Frequently, the IRA owner's personal name is incorrectly used on the title of the property.



The correct title for an investment held as a single owner in your IRA is:
Equity Trust Company Custodian FBO Your Name or Account Number IRA

Preparing for closing

Once you've completed the DOI and titled the documents properly, you are now ready to close. Closing documents, which are prepared by a title company, are forwarded to your self-directed IRA custodian to be signed on behalf of your IRA.

Funds sent from your IRA

Per your instructions, your self-directed IRA custodian will send funds from your IRA to the title company for your investment. Funds can be remitted by check, cashier's check, or bank wire. Check with your custodian for fees related to the payment method you select.

How long will this take?

Processing times may vary with self-directed IRA custodians. At Equity Trust, it typically takes three to five business days for regular processing unless corrections are required. If you need to close more quickly, Equity Trust offers expedited service and can process your documents the same day, as long as the documents are received in good order (fees may apply).

After the closing, the last step is to ensure all final documentation is executed and recorded, if applicable, and sent to your self-directed IRA custodian to ensure your account records are complete. It's important to keep copies for your own recordkeeping as well.

Your IRA owns the property

You now own a property with your self-directed IRA.

If you have questions
about this section
or self-directed IRA
investing in general,
please contact an
Equity Trust Senior
Account Executive at
855-673-4721.

Part IV: What Happens After You Purchase a Property with Your IRA?

This section will explain two important principles: how to handle expenses like property taxes, maintenance, and utilities; and how rental income is returned to your account.

Paying Property Expenses from Your IRA

IRA responsible for all expenses

A self-directed IRA investment property is similar to a property investment outside of an IRA. From time to time, bills for items such as property taxes, maintenance, or upgrades to the property will need to be paid.

All expenses related to an asset owned by the IRA must be paid from the IRA. These expenses cannot be paid with personal funds.

Simple process for paying expenses

For any expenses related to your investment, you'll need to complete a Bill Pay Direction of Investment (DOI) form and submit supporting documentation such as a bill or invoice. This form provides specific information regarding what needs to be paid, the amount needed, and where your self-directed IRA custodian should send the funds.

Equity Trust provides a convenient online account management system, called eVANTAGE, where expenses related to your investment can be paid.

Recurring expenses can be paid automatically

If your property has recurring bills (such as property insurance or association fees), you can schedule recurring payments through eVANTAGE as well.

Rental/Mortgage Income in Your IRA

Depositing income from your IRA investment property back to your IRA

If your real estate investment generates cash flow, you will need to ensure that all income related to an asset in your IRA is returned directly to your IRA. To properly deposit funds into your self-directed IRA, you'll need to first make sure the payment is titled correctly.

Similar to the titling for your property, you need to ensure payments are made to your IRA, NOT to you.

Remember, you and your IRA are two separate entities and, as such, checks need to be written to the name of your IRA and not you personally.



The correct title for an investment held as a single owner in your IRA is:
Equity Trust Company Custodian FBO *Your Name or Account Number* IRA

Titling variation for privacy purposes

For privacy reasons, some account owners prefer to title their investments only using their account number. Titling is similar as above with one exception, the account owner's name is replaced with their account number.

For example: **Equity Trust Company Custodian FBO 12345678 IRA**

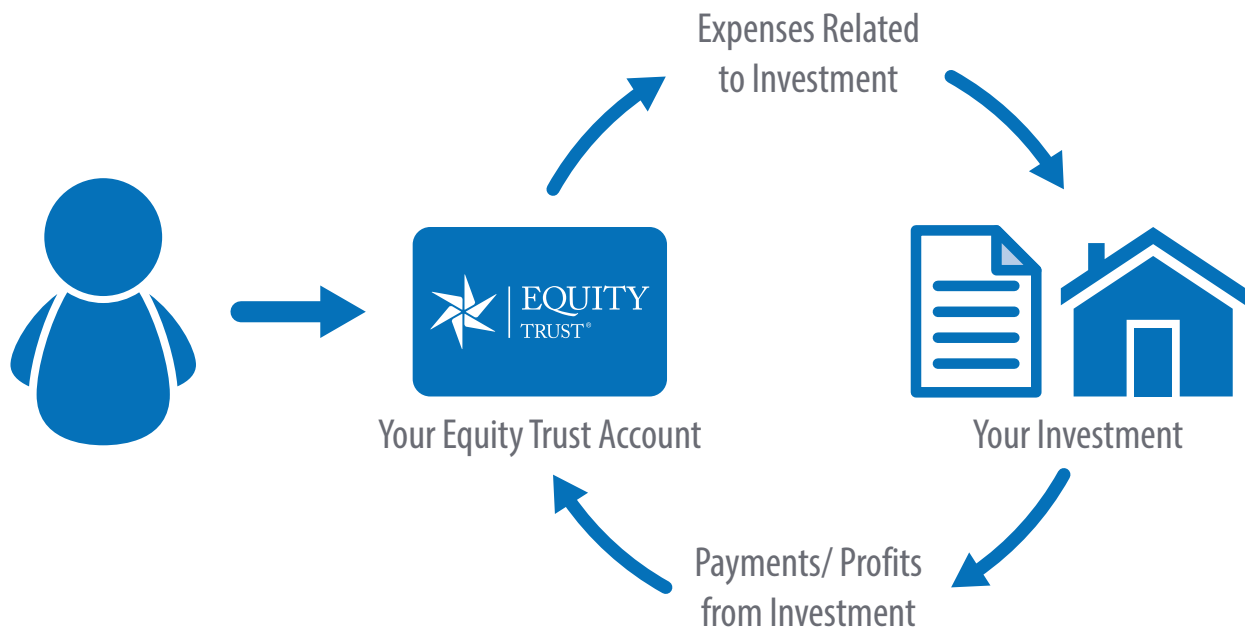
Documentation needed for income

In addition to ensuring the correct titling on checks, a deposit coupon is required for all funds deposited to your self-directed IRA.

Either you or the sender of the check must provide a deposit coupon with the submitted checks. Similarly, a deposit coupon must be faxed or emailed to your custodian if funds will be wired. This helps to ensure funds are directed in the appropriate manner to the correct account(s).

Making sure rental/mortgage payments are made

Rental/mortgage payments received by your custodian are deposited to your account. Equity Trust's online account management system, eVANTAGE, allows you to monitor payments deposited into your account as soon as they are processed.



Part V: How to Sell an Investment in Your IRA

Starting the sales process: A simple example

At some point after purchasing real estate with your self-directed IRA, you may want to sell the property.

The following is a hypothetical example to demonstrate how the process works:

You purchased a home 10 years ago with your self-directed IRA for \$100,000 and now you've found a buyer* willing to purchase the house for \$150,000.

*Similar to purchasing real estate in your self-directed IRA, you must sell the real estate in an "arm's length" fashion. You may not sell property in your IRA to yourself, family members, or any other disqualified person.

Working with a Title Company

Before funds can be returned to your account from the sale of the property, you must complete the sale process through a title company. The following are examples of documents the title company may require to complete the sale:

- A settlement statement, HUD 1, closing statement, purchase agreement (whichever is applicable)
- Correct titling on all documents showing your IRA as current owner
- A Warranty Deed that releases your IRA as owner and gives ownership to the buyer

Ensure proper title

After the \$150,000 contract price has been accepted, ensure the sales agreement/contract is titled properly and any earnest money is submitted to your self-directed IRA, not you.

You and your IRA are two separate entities and, as such, any earnest money must be made payable to your IRA, not you. The contract must also be titled in the name of your IRA.



The correct title for an investment held as a single owner in your IRA is:
Equity Trust Company Custodian FBO *Your Name or Account Number* IRA

Work with Your Self-Directed IRA Custodian: What You Need to Provide

Notify custodian with Sale Direction of Investment

Before the closing, you need to complete a Real Estate Sale Direction of Investment (DOI) form. This form tells your self-directed IRA custodian the specifics of the property you'd like to sell, how much money you'll receive from the sale, and what supporting documents you'll need the custodian to sign on your behalf.

It is important that all information is complete on the Sale DOI and that you indicate which documents will need to be signed by your custodian for the closing.

Submit documents from the Title Company for signature with your DOI

Once the Sale DOI is completed, submit all documents from the title company that require a signature. Your

self-directed IRA custodian will sign all closing documents on your IRA's behalf. Additional supporting documentation may also be required.

Custodian submits final documents to Title Company

After receiving a sale DOI with necessary documents, the custodian will remit all paperwork to the title company/escrow agent. Once the title company/escrow agent processes the paperwork, the asset will be removed from your IRA in exchange for the proceeds of the sale.



All proceeds of the sale return, tax-advantaged, to your IRA!

The title company/escrow agent may remit payment to your account by physical check or a bank wire. After your custodian receives these proceeds, your account will be credited.

The funds are then available to reinvest into another investment opportunity to potentially benefit from compounded, tax-advantaged growth in your IRA.

If you have questions about this section or self-directed IRA investing in general, please contact an Equity Trust Senior Account Executive at 855-673-4721.



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