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## **Self-Directed IRA Rules:** The Foundation for Investing Success



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# Knowing the Rules Helps Build the Foundation for Success

While a self-directed IRA and other accounts can be vehicles 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 investing 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 provides a list of 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 OR OTHER ACCOUNT?

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

\*Your IRA can invest in one, one-half, one-quarter, or one-tenth ounce U.S. gold coins, or once-ounce silver coins minted by the Treasury Department. It can also invest in certain platinum coins and certain gold, silver, palladium, and platinum bullion.

## ALLOWABLE SELF-DIRECTED IRA INVESTMENTS MAY INCLUDE:

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





# Why Haven't I 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 mutual funds. There's a misperception that these are the only investment options for retirement plans.

Often, when an individual asks a custodian or trustee, "Can I invest in non-traditional assets with a retirement account?" 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 invest in alternatives with the following qualified retirement accounts:

- Simplified Employee Plan (SEP)
- Savings Investment Match Plan for Employees (SIMPLE)
- Solo 401(k) (with or without a Roth component)
- 401(k) Safe Harbor Plan (with or without a Roth component)
- 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 personally benefit from an asset owned by the IRA.

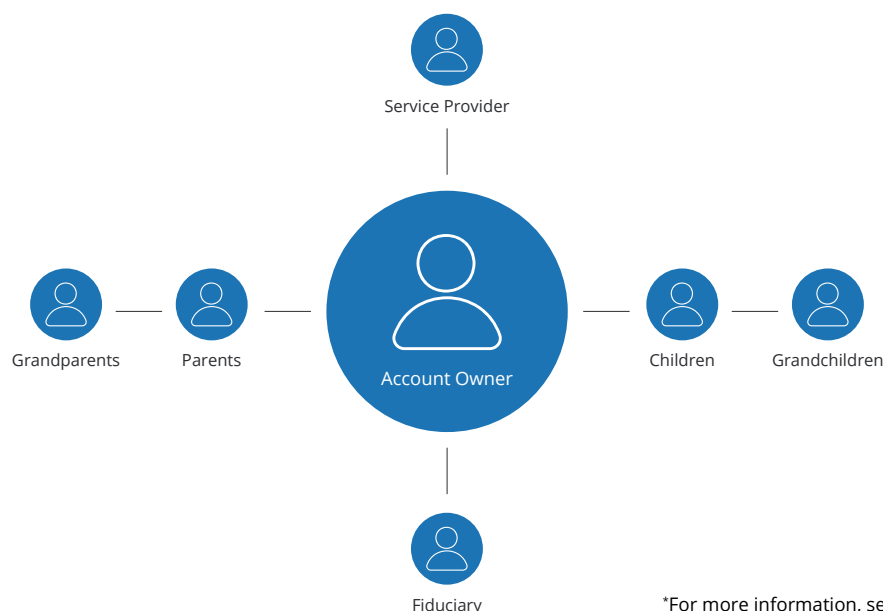
Remember, the IRA (or other account) is intended to provide for your retirement and is not meant to benefit you now. It's considered an "indirect benefit" if your IRA is engaged in transactions that, in some way, can benefit you personally. This is strictly prohibited. Some examples include:

- **Personally Using IRA Property:** Using real estate purchased through your IRA as a 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 or any other disqualified person. 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 or any other disqualified person money from your IRA. Additionally, you can't pay yourself, a company that you own, or any other disqualified person 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, grand children 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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## THE EQUITY TRUST ADVANTAGE

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- Dedicated representatives provide personal service
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