

Self-Directed Retirement Accounts: Frequently Asked Questions

What is a Self-Directed IRA?

An IRA that is “truly” self-directed is one that is set up with an IRA custodian which allows you to choose from the array of investment options allowed by law. By contrast, most custodians impose limits on your choices as set forth by your financial services firm.

What is an IRA LLC?

An IRA LLC is a Limited Liability Company (LLC) whose members are solely or primarily IRA accounts. The LLC structure provides checkbook control over the LLC funds as well as easing the administrative burden with the custodian. This structure may or may not be right for your IRA investment needs.

What is a Solo 401K?

A Solo 401K is a powerful retirement savings plan that is available for “self-employed” individuals i.e. any business whose only owner(s) and employee(s) are one individual or a married couple. The business can be incorporated or unincorporated; Sole Proprietorship, LLC, S Corporation or C Corporation – all qualify.

How long have these programs been around?

The Self-Directed concept has been IRS sanctioned since 1974.

The Solo 401K was introduced in 2001. See IRS Publication 590: Individual Retirement Arrangements (IRAs). IRS Code Section 408 governs traditional IRAs; 408A governs Roth IRAs and Section 401 governs 401K plans.

Why hasn't my Financial Planner/CPA told me about this?

Either s/he does not know about self-directed plans or s/he has no vested interest in sharing the information with you. Most retirement funds are invested in stocks, bonds and mutual funds. These investments provide commissions to the financial services consultant when bought and sold. If your retirement account were to buy real estate and hold it for 5 years, there would be no commission due your financial advisor.

What else can my Self-Directed IRA invest in?

The IRS Code allows great latitude in deciding what investments can be made by retirement accounts. Real Estate, Trust Deeds, LLC's and private placements are just a few of these.

What investments are forbidden?

The Self-Directed IRA (SDI) and IRA LLC may not invest in collectibles, i.e. antiques, artwork, stamps, or alcohol. Also disallowed are Life Insurance contracts and shares in an S Corporation. The Solo 401K may not invest in collectibles; at this writing almost all other investments are permitted.

Is there anyone whom I may not invest with?

You may not purchase, sell or deal with direct family members, i.e. mother, father, son, daughter, direct lineal grandparents or spouses of same. Sisters and brothers, however, are exempt.

If my IRA/401K purchases Real Estate, how does that work?

Your retirement account can not buy property already owned by you. It must be after-acquired property and if residential/condo/multi-family it must be rented out. It is also possible that you can procure leveraged financing through a Non-Recourse loan, i.e. in case of default the lender can only get to the property, never to you or the retirement account.

What about taxes in my retirement account?

If leveraged financing is in place your account may have to pay UBIT (unrelated business income tax). This tax applies only to the SDI and IRA LLC; there are no UBIT implications with the Solo 401K. In any case, UBIT is a small price to pay only on unrelated debt financed income (UDFI). At this writing, no capital gains taxes are paid.

What if my retirement account only has a small amount of money?

No problem. Your IRA/401K can partner with you as an individual or with multiple others. As an example you, your IRA and 4 friends can form an LLC and buy an investment property.

Can I buy my retirement home with my IRA/401K funds?

Yes. You can buy it now, rent it out until you retire and then move into it. As with any distribution from your retirement account there will be tax implications unless the property was purchased with Roth funds.

This all sounds too good to be true! Is it for real?

Absolutely! Just set up your self-directed retirement account properly, utilizing a qualified professional and observing IRA/IRS guidelines and start taking control of your wealth building.