

Self-Directing: Unlocking your IRA

Glen Mather, Entrust Administration Services, Inc.

Did you know that you can invest in real estate – of almost all types – with your IRA or retirement plan? Recent articles in the Wall Street Journal, Time, MSN and AARP publications have brought the practice of retirement self-direction into the public's awareness. It has proven to be a powerful vehicle to build investment wealth while reducing or eliminating future tax considerations – yet historically, it has generally been the high-net worth individuals that have availed themselves of this opportunity.

Indeed, since 1975 self-directed plans have been available, although relatively few IRA holders have taken the time to understand their options and take advantage of such plans. Recently, the IRS has increased the contribution limits to unprecedented levels for most plans. For example, business owners without common law employees may qualify for the Individual or Solo (k) and thus defer up to 100% of their first \$15,000 and up to \$44,000 annually.

There are three things you should know when you self-direct your retirement plan:

- Which retirement plans are best – Traditional IRA, Roth IRA, SEP, Simple or Individual(k)
- What types of investments you want to make within the plan
- The IRS rules of self-dealing and prohibited transactions

The IRS rules regarding prohibited transactions are not too complex, yet one should consult a tax advisor for specific advice. Disqualified people include your immediate family (except siblings) employers (in a qualified plan), certain partners, fiduciaries and other categories spelled out in IRS code. IRA owners may not borrow money from their IRA, sell property to it, receive unreasonable compensation for managing it, or use as security for a loan. There are also several named categories, such a collectables which also may not be held by your IRA.

The opportunities outside these prohibited transactions are significant. You may buy, sell or exchange investment property. You can partner with friends, relatives and business associates to purchase property, then lease it to anyone that is not a disqualified person. You can roll property from one plan to another – or even take property from your plan as a distribution.

We have seen clients form investment groups, combining IRA and non-IRA funds to purchase and hold property, rehab and turn properties or simply lend out the funds in the form of notes and mortgages.

In addition to these ideas, an IRA may also invest in partnerships, LLCs, private stock offerings, loans (both secured and unsecured), tax lien certificates, purchase options, joint ventures and other investments.

So if you are confident in your abilities to make your own investment decisions, have the desire to reduce or eliminate the tax consequences on your gains, and have the resources to invest – self-direction may prove to be a wise choice.

Entrust Administration Services, Inc. has offices in Orlando, Ft Lauderdale & Jacksonville providing self-directed administration for clients in 39 states, Canada and the Virgin Islands.