ACPARE

SELF-DIRECTED IRA:

Alternative Investment Transnational Mastery

User's manual

Structured Success™

IMPORTANT – READ THIS PAGE!

AS A CONDITION OF YOUR MEMBERSHIP, YOU AGREED TO THE FOLLOWING TERMS AND CONDITIONS OF USE THAT WERE LISTED CLEARLY FOR YOUR REVIEW AND AGREEMENT BEFORE PURCHASE. PLEASE REVIEW THEM AGAIN, AS THESE TERMS AND CONDITIONS OF USE REPRESENT AN IMPORTANT LEGAL AGREEMENT BETWEEN YOU, AND THE COMMERICAL INVESTOR, THE ASSOCIATION OF CAPITAL PLACEMENT AGENTS FOR REAL ESTATE (“ACPARE”), DANDREW MEDIA, LLC AND DANDREW PARTNERS, LLC.

END USER TERMS AND CONDITIONS OF USE

THIS IS AN AGREEMENT BETWEEN YOU, THE END USER OF THIS PRODUCT, AND THE COMMERICAL INVESTOR, THE ASSOCIATION OF CAPITAL PLACEMENT AGENTS FOR REAL ESTATE (“ACPARE”), DANDREW MEDIA, LLC AND DANDREW PARTNERS, LLC, A NEVADA CORPORATION COMPANY (“SELF-DIRECTED IRA ALTERNATIVE INVESTMENT TRANSNATIONAL MASTERY”) REGARDING THE USE OF THIS PRODUCT. BY PLACING AN ORDER FOR THIS PRODUCT YOU EXPRESSLY AGREE TO ALL OF THE FOLLOWING TERMS AND CONDITIONS.

COPYRIGHT AND TRADEMARK INFORMATION

FBI WARNING

THE FEDERAL BUREAU OF INVESTIGATION ACTIVELY INVESTIGATES ALLEGATIONS OF CRIMINAL COPYRIGHT INFRINGEMENT UNDER TITLE 17, UNITED STATES CODE.

GRANT OF LICENSE-MATERIALS MAY NOT BE RESOLD OR OTHERWISE TRANSFERRED

THIS PRODUCT IS LICENSED ONLY FOR THE NON-COMMERCIAL PRIVATE EXHIBITION FOR THE INDIVIDUAL PURCHASER. YOU AGREE THAT ANY PUBLIC PERFORMANCE, OTHER USE, OR COPYING IS STRICTLY PROHIBITED. THIS AGREEMENT PERMITS YOU TO RECEIVE A SINGLE, NON-TRANSFERABLE, NON-ASSIGNABLE LICENSE FOR THE NON-COMMERCIAL PRIVATE EXHIBITION OF THIS PRODUCT. THIS PRODUCT IS NOT TO BE RE-SOLD AT ANY TIME. IN OTHER WORDS, YOU EXPRESSLY AGREE THAT THESE MATERIALS ARE FOR YOUR OWN PERSONAL USE ONLY AND ARE NOT TO BE SOLD OR OTHERWISE DISTRIBUTED OR TRANSFERRED TO ANY OTHERS NOW OR AT ANY TIME IN THE FUTURE. DANDREW MEDIA, LLC AND DANDREW PARTNERS, LLC WILL, IN ALL CIRCUMSTANCES, VIGOROUSLY PURSUE ANYONE WHO INFRINGES UPON OR OTHERWISE VIOLATES ITS RIGHTS UNDER THIS CONTRACT OR AT LAW OR EQUITY FOR THE MAXIMUM REMEDIES, PROTECTION, AND STATUTORY DAMAGES ALLOWABLE UNDER BUT NOT LIMITED TO TITLE 17, UNITED STATES CODE, CHAPTER 5.

DISCLAIMER AND RELEASE FROM LIABILITY

YOU UNDERSTAND AND AGREE THAT THE INFORMATION CONTAINED IN THIS PRODUCT IS FOR YOUR PERSONAL PURPOSES ONLY. STATEMENTS MADE AND CONCEPTS CONVEYED THROUGHOUT THIS PRODUCT ARE PERSONAL OPINIONS ONLY. THE COMMERICAL INVESTOR, DANDREW MEDIA, LLC AND DANDREW PARTNERS, LLC, AND THE AUTHOR MAKE NO REPRESENTATION OTHERWISE. YOU ARE RESPONSIBLE FOR YOUR OWN BEHAVIOR AND CONDUCT. NONE OF THE MATERIAL CONTAINED HEREIN IS TO BE CONSIDERED LEGAL OR PERSONAL ADVICE. THIS PRODUCT IS PROVIDED “AS-IS” WITHOUT ANY WARRANTIES OF ANY KIND WHATSOEVER (EITHER EXPRESSED OR IMPLIED) AND YOU ALONE ASSUME ANY AND ALL RISK ASSOCIATED WITH USE OF THIS PRODUCT. BY PURCHASE AND/OR USE OF THIS PRODUCT YOU WAIVE ANY CLAIM WHATSOEVER AGAINST AND HOLD HARMLESS THE COMMERICAL INVESTOR, ACPARE, DANDREW MEDIA, LLC AND DANDREW PARTNERS, LLC, AND ANY OF ITS OFFICERS, STAFF, ADVISORS, REPRESENTATIVES, OR DESIGNEES THAT MAY ARISE FROM SUCH USE. THIS WAIVER SPECIFICALLY ALSO INCLUDES BUT IS NOT LIMITED TO ANY CLAIM ARISING FROM A PRODUCT AND/OR SERVICE WHICH YOU PURCHASE FROM THE COMMERICAL INVESTOR, ACPARE, DANDREW MEDIA, LLC AND DANDREW PARTNERS, LLC, OR ANY INFORMATION YOU RECEIVE VIA POSTAL MAIL, EMAIL, FAX, OR OTHERWISE. THIS INCLUDES BUT IS NOT LIMITED TO RESPONSIBILITY FOR THE ACCURACY OR COMPLIANCE WITH ANY APPLICABLE LOCAL LAWS. NEITHER THE COMMERCIAL INVESTOR, ACPARE, DANDREW MEDIA, LLC NOR DANDREW PARTNERS, LLC, NOR ANY OF ITS OFFICERS, STAFF, ADVISORS, REPRESENTATIVES, OR DESIGNEES SHALL BE LIABLE IN ANY WAY WHATSOEVER (INCLUDING, BUT NOT LIMITED TO, NEGLIGENCE) FOR ANY DIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES RESULTING FROM EITHER YOUR USE OF THIS PRODUCT OR YOUR INABLITY TO USE IT EVEN UNDER ANY CIRCUMSTANCE IN WHICH THE COMMERICAL INVESTOR, ACPARE, DANDREW MEDIA, LLC AND DANDREW PARTNERS, LLC, OR ANY OF ITS REPRESENTATIVE(S) HAVE BEEN ADVISED OF POTENTIAL LIABILITY, DAMAGES, OR INJURY. CERTAIN APPLICABLE LAWS MAY NOT ALLOW ALL THE LIMITATIONS OF LIABILITY DESCRIBED HEREIN. TO THE EXTENT THAT ANY OF THE ABOVE REMEDIES AND/OR LIMITATIONS SHOULD BE DEEMED TO FAIL OF THEIR ESSENTIAL PURPOSES, YOU AGREE THAT THE COMMERCIAL INVESTOR, ACPARE, DANDREW MEDIA, LLC AND DANDREW PARTNERS, LLC TOTAL LIABLILTY TO YOU UNDER ANY CIRCUMSTANCES WHATSOEVER, INCLUDING BUT NOT LIMITED TO LOSSES, DAMAGES, CAUSES OF ACTION, AND/OR NEGLIGENCE SHALL NOT EXCEED THE TOTAL MANUFACTURER’S SUGGESTED RETAIL PRICE OF THIS PRODUCT AT THE TIME OF PURCHASE.

THE EDUCATIONAL TRAINING PROGRAMS THE COMMERICAL INVESTOR, ACPARE, DANDREW MEDIA, LLC AND DANDREW PARTNERS, LLC PROVIDES ARE NOT DESIGNED OR INTENDED TO QUALIFY STUDENTS FOR EMPLOYMENT. THEY ARE INTENDED SOLELY FOR THE AVOCATION, PERSONAL ENRICHMENT, AND THE ENJOYMENT OF OUR STUDENTS. THE COMPANY’S PRODUCTS (INCLUDING BUT NOT LIMITED TO TRAINING AND COACHING MATERIALS, AND NEWSLETTERS) ARE FOR EDUCATIONAL AND/OR ILLUSTRATION PURPOSES ONLY, AND ARE PROVIDED WITH THE UNDERSTANDING THAT THE COMPANY IS NOT ENGAGED IN RENDERING LEGAL, ACCOUNTING, OR OTHER PROFESSIONAL OPINIONS. PLEASE NOTE THAT INVESTING INVOLVES RISKS. ANY DECISION TO INVEST IN EITHER THE REAL ESTATE OR STOCK MARKETS IS A PERSONAL DECISION THAT SHOULD BE MADE AFTER THOROUGH RESEARCH, INCLUDING A PERSONAL RISK AND FINANCIAL ASSESSMENT.

TABLE OF CONTENTS

NOTES

INTRODUCTION

1.1 ORIENTATION

Welcome to this ACPARE certification course titled Self-Directed IRA Mastery. We're glad you're with us. We are excited to present this course to you, as it can provide you with the knowledge and tools that you need to approach, and to purchase, real estate investment property in a creative and tax-advantaged manner.

As with our other courses, this will provide you with knowledge of the topic at hand, as well as with more in-depth information using sample deals, and quizzes that will test your knowledge at the end of each chapter.

By taking this course, you will receive an easy-to-use practical guide that offers information, formulas, and metrics for real-world deal situations that you may be involved in going forward. The training has been ultimately designed to walk you through scenarios that you could encounter during the course of your real estate investing and related financing endeavors.

This program has the capability to be life-changing for you in several ways. First, if you've had a desire to get into the business of real estate investing, but you haven't had ample funds for doing so, you're going to learn about an "untapped" source that you might have right in front of you, but never realized you were able to use.

For hundreds of years in the U.S., people have been purchasing - and profiting from - real estate. One reason for this is because this particular investment vehicle is finite. You've probably heard that "they aren't making any more of it." Plus, over the past few years, the real estate market has begun to recover in many areas of the country, bringing it up from its lows during the 2008 recession.

With that said, though, there are also still a large percentage of the population who either cannot, or do not desire to, purchase a home. This means that there are a multitude of potential renters out there who can provide you with a nice, ongoing cash flow.

This makes right now an ideal time move forward with the purchase of investment property - and, if you can do so using a tax-advantaged account, you can boost your returns exponentially over time.

Our goals for you in this course include providing details on tapping into a little known source of investment dollars for your property purchases, as well as how to go about using it. The course will also provide in-depth details on the many tax benefits that you can acquire by financing your properties in this way.

So, not only can this course provide you with information that will allow you to

NOTES

purchase real property more quickly and easily, but it will also give you a guide as to how you can boost overall the returns in your retirement account(s).

1.2 HERE'S WHAT TO EXPECT

During this course, we will be focusing on four key objectives. These include understanding what a self-directed IRA is - and how it differs from a regular IRA account, as well as why self-directed IRAs can offer additional opportunities for return, how to properly set up a self-directed IRA account, and the different ways in which these types of accounts can be used, particularly in real estate related transactions.

With that in mind, we will first delve into an overview of self-directed IRA accounts, and why the current traditional or Roth IRA that most people posses are not the same thing as a truly self-directed IRA vehicle.

Second, we will go over the many reasons why self-directed IRA funds can be such a good source of capital when purchasing investment property, along with many of the things that can and cannot be done when making use of these dollars. This will include a discussion of the allowable transactions that can be carried out using self-directed IRA funds.

In addition, some of the common transactions such as purchasing real property and acting as a private lender will be more fully explained, along with the important IRS rules that must be followed in these situations.

Next, the proper set-up and funding options for self-directed IRAs will be outlined. There are several key steps here that should be followed, such as aligning with a custodian and choosing a structure for the account. There are also certain professionals that should ideally be considered to work with as an "advisory team."

The course will conclude with the tax-related aspects of the self-directed IRA, in particular how these work in regard to conducting real estate transactions with such funds. This will include details on Unrelated Business Income Tax (UBIT) and how to ensure that IRS codes and rules are followed.

While this is not technically a real estate investing course per se, you will learn several key facets of the real estate investment arena. In this case, though, using a creative and "non-traditional" strategy, you can act on attractive properties more quickly, while at the same time allowing your income and profits from these investments to grow and expand without ongoing taxation.

Before you get started in this course, please read the orientation blog to help you understand the key points of real estate investing. You can use the following link to view the orientation: <place link here>.

Here is your opportunity to move forward with the real estate investments and the financing method that can provide you with a myriad of benefits. So, let's go ahead and get started.

NOTES

LESSON 1: YOUR "HIDDEN" SOURCE OF FINANCING FOR REAL ESTATE DEALS

When the Individual Retirement Account (IRA) came into existence back in 1974, it offered investors a way to set aside money for the future in a tax-advantaged manner. For many people, either some or all of the funds that were invested into their IRA account could be deducted from income for that year, while at the same time, any gains that were earned in the account would be tax-deferred until the time the money was withdrawn.

Today, the term "IRA" is familiar to most people. In its basic structure, an IRA is a personal savings plan that gives you tax advantages for setting aside money for retirement. By definition, an IRA is "a retirement investment account established by employed workers who earn a salary, wages, or self-employment income." These types of accounts can be set up with a bank, brokerage firm, mutual fund company, insurance company, or other trustee.1

UNDERSTANDING THE IRA STRUCTURE

Initially, there was just one type of IRA account that was available to investors, which is the type of account that is now referred to as the "traditional" IRA. In addition to allowing deposits - up to an annual maximum dollar amount - to be deferred going into the account, the money inside the IRA grows tax-deferred, and 100% of the proceeds will be taxed as ordinary income when the account holder makes withdrawals in the future.

If an IRA account holder takes money out of the account before turning age 59 1/2, they may also be subject to an additional 10% "early withdrawal" penalty from the IRS (Internal Revenue Service).

When a traditional IRA holder turns age 70 1/2, though, he or she is required to start taking at least a set minimum amount of withdrawal from the account (if they have not already started doing so). If they don't, they can also face an IRS penalty for not following the Required Minimum Distribution, or RMD, rules.

In 1997, another type of IRA was created. This account, known as a Roth IRA, does not allow an investor to defer funds pre-tax into the account, but rather, all of the money that is deposited into a Roth IRA has already been taxed to the investor.

While they are inside of the account, Roth IRA funds are also allowed to grow without taxation, similar to the traditional plan. However, when Roth IRA funds are withdrawn, they are done so tax-free, which can allow the investor use of

NOTES

100% of the money when received.

Also unlike the traditional IRA account, a Roth IRA does not require that any withdrawals are taken when the account holder turns 70 1/2. This, in turn, can allow the funds inside of the account to continue growing in a tax-advantaged way - in some cases, for a much longer period of time.

ROTH VERSUS TRADITIONAL RETIREMENT ACCOUNTS

	TRADITIONAL	ROTH
Maximum Annual IRA Contribution (in 2017)	100% of annual compensation or $5,500 (if age 49 or younger) / $6,500 (if age 50 or older), whichever is less.	Same as Traditional IRA, subject to phase-out range, depending on modified adjusted gross income.
Maximum Retirement Plan Contribution (in 2017) for 401(k), 403(b), and most 457 plans	• $18,000 if age 49 and younger • Additional $6,000 for age 50 and older	• $18,000 if age 49 and younger • Additional $6,000 for age 50 and older
Deductible Contributions	Yes, either fully or partially.	No.
Federal Income Tax Treatment on Earnings	Earnings grow tax-deferred until distributions begin.	Earnings grow tax-free.
Federal Tax Treatment on Withdrawals	Distributions are taxed as ordinary income.	Qualified distributions are tax-free.
Distributions	Distributions from contributions and earnings can be taken after age 59 1/2 without federal tax penalty. Mandatory withdrawals must begin no later than April 1 following the year the account holder reaches age 70 1/2.	Distributions from contributions can be made any time without taxes or tax penalty. Distributions from earnings are tax-free if the initial contribution to the account was made at least 5 years prior and the account holder meets one of the following: • age 59 1/2 • disabled • purchasing a first home (up to $10,000 lifetime maximum)
Required Minimum Distributions (RMDs)	Account holder must begin taking RMDs no later than April 1 of the year following the year he or she turns age 70 1/2.	No RMDs apply during the account holder's lifetime. Also, more tax-free is possible.

NOTES

CHOOSING IRA INVESTMENTS

Since IRA accounts were initially created back in the mid-1970s, many investors have felt - oftentimes mistakenly - that the funds inside of their IRA accounts were being invested in a diversified manner.

For example, investors have often felt that they have had the freedom to choose a well diversified mix of investment offerings. These have primarily consisted of stocks, bonds, mutual funds, and CDs (certificates of deposit).

Unfortunately, though, just simply placing funds into different types of "intangible" offerings like stocks, bonds, and mutual funds is really not necessarily considered to be all that diversified.

The reality is that, you could pick and choose from a much wider array of investment options, including real estate and tax liens, that will not only provide your account with a much broader diversification, but that can also provide the opportunity for better, more stable returns.

In order to open the door to these other, "non-traditional" IRA investments, though, it is necessary to first have the right type of IRA account. This plan is known as a self-directed IRA - and the majority of financial services companies do not offer them.

So, why do most banks and investment firms only offer the more "limited" type of IRA to their clients?

One reason for this is due in large part to the fact that most brokerage companies and other financial institutions only offer certain "products" in their inventory, so they have had very little incentive to offer their IRA investors anything else in terms of investment options.

In other words, by only being able to offer a limited set of investment alternatives, that is what advisors most often will recommend to their clients. But this leaves out a myriad of other asset classes - assets that could be invested in a tax-advantages manner through a self-directed IRA account. It also means that if you only posses a regular traditional or Roth IRA, you may not be getting the returns that you could - and should - be getting in your portfolio.

2.1 AN OVERVIEW OF SELF-DIRECTED IRAS

Throughout the years, the retirement savings industry has traditionally been dominated by large transaction-driven companies that focus only on a very narrow universe of investments. And, while these accounts might be right for some people, they don't offer the freedom and control that a self-directed IRA account can offer.

Contrary to what many investors believe, the Internal Revenue Service (IRS) does not put a lot of limitations on the types of assets in which a self-directed IRA account holder may invest. In fact, there are so many choices with

NOTES

a self-directed IRA account, the IRS does not identify what investments or transactions investors can make in these IRAs, but rather, they state only the few investments or transactions are prohibited.

For instance, “alternative” investments such as real estate and mortgage notes have always been permitted in IRAs, but few people seem to know about these additional investment options. So, while many investors are familiar with traditional and Roth IRAs, there are a majority who are not as familiar with how a truly self directed IRA account works.

So, how exactly do self-directed IRAs work?

In general, self directed IRA accounts are quite similar in structure to regular traditional and Roth IRAs. Where they differ is in the element of control that is provided to the account owner in terms of investments that can be placed inside of the account.

Unlike regular IRA accounts, self directed IRAs allow investment in tangible assets such as real estate, commodities, and precious metals. These investments are typically made with the assistance of a self directed IRA custodian.

A self directed IRA account can actually be considered a type of “subset” of the traditional and the Roth IRA. These accounts allow their holders to make investment choices on behalf of the account itself, rather than just simply because a financial firm carriers something in their “inventory”.

These accounts are unique in other ways, too, because of the elements of control that they offer to their investors. For instance, in a truly self directed IRA account, it is the account holder who directs what investments go into the account, rather than being restricted only to what is available to them through the bank or brokerage firm where the account is being held.

Just some of the many investment options that are allowed to be placed inside of a self directed IRA account include the following:

- Real estate - residential and commercial
- Mortgages and deeds
- Private notes and loans
- Gold and certain other precious metals
- Futures
- Commercial paper

With that in mind, there are clearly a number of benefits to investing using self directed IRA accounts - starting with the vast array of investment choices that are available. In addition, just as with regular IRA accounts, investors can reap the benefits of tax-deferred or tax-free growth of the assets that are inside of the account.

NOTES

This means that taxes are not due until the assets are actually withdrawn if you have a self-directed traditional IRA, and that the money that is withdrawn from a self-directed Roth IRA is tax-free.

Unfortunately, many financial advisors who work in the traditional investment community do not realize that these types of accounts even exist - and those who do, typically cannot offer self-directed IRA accounts. This is why there is so little information available about self-directed IRA accounts today.

2.2 WHY YOUR CURRENT IRA WON'T WORK

Over time, many financial services firms have touted their offering of "self-directed" IRAs. But, while this may lead you to believe that you have a broad range of investment options for your account, the reality is that most of these entities are simply referring to the fact that investors can pick and choose from stocks, bonds, mutual funds, and other, more "traditional", investment alternatives.

Few investors realize that they have the option to "self-direct" the investments in their IRAs into real estate and other tangible assets, while still benefiting from the tax advantages that those IRA plans provide.

But even if you are familiar with truly self-directed IRA investing - and you want to move forward with using your IRA funds to make purchases of real estate and / or other non-traditional investments - you won't be able to do so with a regular IRA account.

In fact, there are actually several limitations that you are subject to when you have an IRA account that is not truly self-directed. These can limits can include the following:

- Only certain products are allowed in the account. While having a selection of mutual funds and other equity vehicles can seem like a "variety" of investments to choose from, a regular IRA account will limit you only to certain options, whereas a truly self-directed IRA opens the door to a whole host of both intangible and tangible investment choices.
- Transaction fees. When purchasing stocks, mutual funds, or other types of equities within a regular IRA, you will typically be subject to transactional fees. With a true self-directed IRA account, though, you will no longer need to pay a transactional fee for each and every investment that you make. In fact, the annual custodial fees on self-directed IRAs are considered to be some of the lowest in the industry.
- More paperwork. When making investments in a regular IRA account, it can often require various paperwork to be submitted. But with a truly self-directed IRA, if you find an investment that you wish to purchase, you may simply be able to write a check on the spot in order to secure the deal.

NOTES

OWNING AN IRA THAT PROVIDES OPTIONS AND CONTROL

Over the years, it is likely that you will be presented with many potential real estate deals - and it could be that the money that is inside of your IRA account will be the only funds that are available to you in order to move forward with the purchase.

By using a truly self-directed IRA, you can take advantage of these deals much more quickly, in turn, allowing you to boost your investment returns, as well as provide you with the additional diversity that you may need in order to hedge assets against inflation - and to protect assets from a volatile stock market.

By placing funds into a self directed IRA account, you can also open up a whole new world of investment options, as well as provide your savings with added protections - essentially giving yourself a “best of both worlds” retirement investment scenario.

NOTES

2.3 ASSIGNMENT

Although traditional and Roth IRAs are both types of Individual Retirement Accounts, there can be some significant differences between the two. List three of the key differences between a traditional and a Roth IRA.

Answer:

1) Traditional IRA contributions may go into the account pre-tax, while Roth contributions are after-tax.

2) Traditional IRA withdrawals are typically taxable, while Roth withdrawals are tax-free (provided the account owner is over age 59 1/2).

3) There are adjusted gross income limits for Roth IRA eligibility, but not with traditional IRAs.

NOTES

2.4 CHAPTER QUIZ

1. Regular IRA accounts can be set up through which of the following entities:

a. Bank

b. Brokerage Company

c. Mutual Fund Company

d. All of the above

2. If an IRA account holder takes money out of the account before turning age ______, they may also be subject to an additional 10% “early withdrawal” penalty from the IRS (Internal Revenue Service).

a. 18

b.21

c. 59

d. 59 1/2

3. Which type of IRA account allows tax-free withdrawals.

a. Traditional

b. Roth

c. Both a and b

d. Neither a or b

4. John, age 55, is single and earns $50,000. He has both a traditional and a Roth IRA account set up through his financial advisor. What is the maximum amount of contribution John can make in 2017?

a. $5,500

b. $6,500

c. $11,000

d. $13,000

5. In general, self directed IRA accounts are quite similar in structure to regular traditional and Roth IRAs.

a. True

b. False

Sources

1. IRS.gov

NOTES

LESSON 2: WHY USE SELF-DIRECTED IRA FUNDS TO BUY INVESTMENT REAL ESTATE

Although most investors do not even know about self-directed IRAs, those who do know and understand these accounts can truly make a difference in how their retirement funds are put to work - and ultimately in how that money performs over time.

Investing in real estate can provide you with ample benefit. But, doing so within a self-directed IRA account can truly help you to explode your returns, because along with all of the other advantages to owning investment property, you are also able to obtain the tax-related benefits that IRA investing allows you.

In addition, a self-directed IRA account may also be able to provide you with even more benefits through use of a strategy that is known as "checkbook control," as well as the ability to invest via an LLC (Limited Liability Company).

The good news is that, there are many financial institutions that specialize in these types of IRA accounts, and that can help you to ensure that your self-directed IRA is properly set up, funded, and ready to provide you with all of the benefit that these accounts can offer.

3.1 THE BENEFITS OF TAPPING INTO IRA FUNDS TO PURCHASE ASSETS

There are numerous benefits to owning a truly self-directed IRA account. These accounts can allow you many more choices in terms of investment vehicles, as well as tax-related perks. So, if you are seeking both tax advantages, as well as diversity in your retirement investing, then this could be a viable option.

JUST SOME OF THE ADVANTAGES OF SELF-DIRECTED IRA INVESTING INCLUDE:

- Control - When you own a truly self-directed IRA, you have much more control over what goes into your account. For example, rather than being "sold" only what your stock broker or banker happens to have on the "shelf," you are the one who is controlling the investment vehicles that are purchased and sold. This can include tangible assets like residential or commercial real estate.

NOTES

- Speed - Great investment opportunities don't necessarily always come along at the ideal time. This is particularly the case with real estate, which will often require that you secure a loan before you can move forward with the purchase - or even with making an offer on the property. By opening up the door to money that was initially thought to be "locked up" in a retirement account, you can jump on deals much more quickly, knowing that you have the funds already available to back it up.
- Additional Growth Potential - A truly self-directed IRA can also give you the potential for added growth in your account. For instance, with regard to real estate investments, you can increase your return in two primary ways. First, the property itself can appreciate (tax-deferred or tax-free) over time.

In addition to that, your account will also be accumulating rental income throughout the time it is owned in your IRA. So, not only is the account accumulating rental income, but if the property sells for more than what you bought it for, the gains that are realized are not immediately taxed (or ever, if in a Roth IRA). This, then can provide you with the opportunity for exponential gains - those from the property's appreciation, as well as the gain on the money that would have been taxed if you owned the property outside of an IRA account.

- Management - Because you have more control over what you're investing in, you will also be in a better position to manage your portfolio. For example, no longer are you at the mercy of the stock market or mutual fund managers for the performance of your investments. Rather, you can use your specific knowledge and expertise to manage what you own yourself.

As an example, if you own rental real estate in your IRA portfolio, you can actually manage the property(ies) yourself by increasing the value through renovation, screening potential tenants, and collecting the rent money (which, by the way, goes into the IRA account and is able to grow tax-deferred or tax-free).

- Diversification - In addition to "traditional" financial vehicles like stocks, bonds, and mutual funds - which can be held within a regular traditional or Roth IRA account - a self-directed IRA is allowed to hold a multitude of both tangible and intangible assets.

And, because you're investing in a tax-advantaged account, you'll not only be able to reap the benefits of potential growth (and in some cases, income), but you can do so in either a tax-deferred or tax-free manner.

Just some of the assets that can be held in a truly self-directed IRA include the following:

  - Residential and Commercial Real Estate
  - Raw Land

NOTES

- Mortgages and Deeds (this includes first and second mortgages)
- Private Notes / Loans
- Commercial Paper
- Gold and Other Precious Metals
- Private Placements
- Limited Partnerships

- Tax Advantages - Because you are investing through an Individual Retirement Account, you will still be able to reap the tax-related benefits that are associated with IRA investing. These can include:
    - Fully or partially deductible contributions (with a traditional IRA account)
    - Tax-deferred (traditional) or tax-free (Roth) growth on the money that is within the IRA account
    - Tax-free withdrawals (Roth)
    - No required minimum withdrawals at age 70 1/2 (Roth)
    - Assets can pass to beneficiaries after death in a tax-advantaged manner - which makes self-directed IRA investing not just beneficial for the investor, but also for future generations.
- Asset Protection - In addition to the growth and tax-related benefits of self-directed IRA investing, there is another key benefit. That is asset protection. Generally, IRA accounts are protected under the federal bankruptcy law, and therefore can be shielded from creditors.

Plus, if your self-directed IRA purchases property (or other assets) through an IRA LLC, even if you are personally sued, your IRA LLC assets can be protected, in turn, keeping your retirement assets safe for the future.

3.2 HOW TO NET MORE FROM YOUR REAL ESTATE INVESTING USING YOUR SELF-DIRECTED IRA

By taking advantage of potentially higher returns, along with the tax benefits of Individual Retirement Accounts, you can enhance your investment returns exponentially - providing yourself with a much larger asset base through which to generate retirement income in the future.

So how exactly can you end up netting more from your real estate investing by using a self-directed IRA?

First, after completing a successful real estate transaction, most investors will be required to hand over a sizeable sum to the IRS in the form of taxes on the gain. When you invest in property through your self-directed IRA, though, you won't have to split your profits with Uncle Sam.

This is because, just as with any other type of investment vehicle that you put inside of an IRA account, the tax that is due on the gains can either be

NOTES

postponed (with a traditional IRA), or eliminated altogether (with a Roth IRA account).

Because of this, the money that you are able to keep control of can again be used to put towards other investments - which in turn, can produce additional gains over time. This, then, has the effect of snowballing your returns throughout the years.

The power of compound interest is extremely compelling. One reason for this is because the compounding of interest can work both ways - in other words, it can work for you, or it can work against you.

Let's take a look at an example. Bob is a real estate investor. He purchases a property for $100,000 to use as a rental. Over the next ten years, Bob receives regular monthly rent from that property - which he has to claim as income on his tax return each year.

On top of that, Bob did not have $100,000 in cash available to purchase the property outright. So, he uses $20,000 from his savings account as a down payment, and he borrows the other $80,000 at an interest rate of 5%.

Therefore, even though Bob can claim the interest he pays on his mortgage on his annual tax return, he also must make a mortgage payment to a lender every month - which consists primarily of interest rather than principal.

After ten years, Bob sells the property for $200,000 - and he subsequently is required to pay a tax on his $100,000 gain (the difference between his original purchase price of $100,000 and the price of $200,000 that he sells the property for).

Jim, another real estate investor, also purchases a property for $100,000. However, Jim buys the property within his self-directed IRA account. Because Jim has $100,000 in his IRA, he is easily able to fund the property, without the need to go through a bank or lender.

The rental income that Jim receives from his tenant goes directly into his self-directed IRA account. So, this money can also grow tax-deferred. When Jim sells his property ten years later for $200,000, he is not required to pay any gains tax on the $100,000 profit that he earned - which in turn, gives him all of his sale proceeds to purchase another property, or any other investment that he chooses, and continue compounding his returns.

You can also see higher net returns if you use your self-directed IRA to "flip" properties. For example, Bill is a real estate investor who comes across a two-bedroom home in need of some rehab work that is he able to purchase for $25,000.

Because Bill felt that the property would be a good deal for his retirement account, he instructs his self-directed IRA custodian to purchase the property on behalf of his IRA. The property needed improvement, so Bill also instructs

NOTES

his self-directed IRA custodian to submit $10,000 to a contractor who completes the needed fix-up.

Once the renovations are complete, Bill is able to turn around and sell the home for $100,000 - which nets him a profit of $65,000. This profit remained in Bill's self-directed IRA account, ready to be invested into the next deal that he finds.

Had Bill have done this exact same deal outside of his self-directed IRA account, he would have had to pay 28% in taxes. But, because his tax is deferred, the difference for Bill in just this one single deal was $18,200. (28% of Bill's $65,000 profit equals $18,200 that would have otherwise gone to Uncle Sam in taxes).

3.3 A FEW FACTORS TO CONSIDER BEFORE MOVING FORWARD

While there are a myriad of benefits to investing within a self-directed IRA, there are also a few factors that you need to consider before moving forward with opening and funding an account so that you stay within the proper parameters.

First, if you use your self-directed IRA to purchase real property or other tangible assets in your account, know that you are not able to sell these assets as quickly as you would stocks or mutual funds. Therefore, illiquid assets such as real estate should typically be considered as more of a long term endeavor.

Also, investing in a truly self-directed IRA account does require that certain rules are followed - and if they are not, you run the risk of losing the tax-related advantages that can make these types of accounts so beneficial. In some cases, you could also be liable for penalties and / or fines, or even the closure of your account altogether. So, it is important that you follow the IRS's plan asset rules.

These include not investing in financial vehicles that aren't allowed to be in a self-directed IRA account, as well as veering away from prohibited transactions such as "self dealing". For example, even though there is a long list of assets that are allowed to be held in a self-directed IRA account, some options - such as life insurance and collectibles - could end up jeopardizing the tax-deferred or tax-free status of the account.

You also are not allowed to use the funds in your self-directed IRA account, either directly or indirectly, to benefit yourself or a person (or entity) that is considered to be a disqualified person. For instance, you are not allowed to use your IRA to purchase a home for you to live in - or even a vacation home to use yourself (or for any other disqualified person to personally use).

Likewise, you are not allowed to pay yourself any type of fee or compensation from the money that flows into the self-directed IRA account, such as from the rental income of your investment property(ies).

NOTES

A self-directed IRA owner is also not allowed to "self deal," meaning that the transactions that take place in the account must be done at arm's length and not involve the IRA account owner, or even members of his or her family.

The IRS penalties for not following the rules can be fairly harsh. As an example, if you have $1 million in your self-directed IRA, and you use $200,000 of it to purchase a property that you use as a vacation home for yourself and your family members, the IRS could actually consider that the whole $1 million in the account has been "distributed" and in turn, make the entire account balance subject to income tax. And, if you are under the age of 59 1/2, the IRS could also charge you an additional 10% early withdrawal penalty.

A "disqualified person" as it relates to self-directed IRA accounts, would include you (the IRA account owner), as well as:

- Your spouse
- Your ancestors and lineal descendents (such as your children and grandchildren)
- Your ascendants (such as your parents and grandparents, as well as your spouse's parents and grandparents)
- Spouses of your lineal descendants
- Any investment manager and / or advisors for the self-directed IRA account
- Anyone providing services to the IRA, such as the trustee or custodian
- Any corporation, partnership, trust, and / or estate in which you own a 50 percent or greater interest

With that in mind, be sure that you are familiar with the IRS codes that pertain to self-directed IRAs, as you don't want to bring about negative tax consequences such as the tax-deferred or tax-free status of the account, or even the disqualification of your IRA account altogether.

Provided that your self-directed IRA account is properly set up and funded, and that you follow the IRS rules that are related to such accounts, you have the opportunity to reap some tremendous returns, along with tax-advantaged gains, that can ultimately make a big difference in your future retirement lifestyle.

NOTES

3.4 ASSIGNMENT

Self-directed IRA accounts have very specific rules regarding who can and cannot have personal use of the assets, such as real estate, that are purchased through the account. List those who are considered to be “disqualified persons” as it relates to a self-directed IRA.

Answer:

Yourself

Your spouse

Your ancestors and lineal descendents (such as your children and grandchildren)

Your ascendants (such as your parents and grandparents, as well as your spouse’s parents and grandparents)

Spouses of your lineal descendants

Any investment manager and / or advisors for the self-directed IRA account

Anyone providing services to the IRA, such as the trustee or custodian

Any corporation, partnership, trust, and / or estate in which you own a 50 percent or greater interest

NOTES

3.5 CHAPTER QUIZ

1. Which of the following are benefits of truly self-directed IRAs over regular IRA accounts.

a. Diversification

b. Control

c. Management

d. All of the above

2. What are some assets that could end up jeopardizing the tax-deferred or tax-free status of a self-directed IRA account.

a. life insurance

b. real estate

c. gold

d. None of the above

3. A self-directed IRA owner is also not allowed to ___________, meaning that the transactions that take place in the account must be done at arm's length and not involve the IRA account owner, or even members of his or her family.

a. diversify

b. self-deal

c. write checks

d. None of the above

4. You are allowed to pay yourself a fee from the money that flows into the self-directed IRA account, such as from the rental income of your investment property(ies).

a. True

b. False

5. A truly self-directed IRA can give you the potential for added growth in your account.

a. True

b. False

NOTES

LESSON 3: THE TRULY SELF-DIRECTED IRA DIFFERENCE

There are many banks, insurance companies, and other financial entities that offer IRA accounts - and of these, there are a large number that state that their IRA accounts are self-directed. However, their version of a self-directed IRA and a truly self-directed IRA account are oftentimes different.

4.1 HOW A SELF-DIRECTED IRA DIFFERS FROM YOUR CURRENT IRA ACCOUNT

While you may see "self-directed" IRA accounts advertised by traditional financial services companies, these accounts are often only self-directed in that you, the account holder, can only choose from a very short list of traditional financial vehicles to buy and sell within your IRA account.

These may include:

- Stocks
- Bonds
- Mutual Funds
- CDs

Yet, while there are numerous choices even within each of these options, the self-directed IRAs that are offered through traditional financial firms really only allow you to "direct" your investment choices in terms of these companies' offerings. Rather, a truly self-directed IRA can offer you the ability to invest in an almost unlimited number of assets. These include both tangible and intangible items.

In addition, when you own a truly self-directed IRA account, you will possess other benefits, too, such as having more control of how your account is managed, and more control over the performance and return of many of the assets themselves.

TYPES OF IRA ACCOUNTS - AN OVERVIEW

Although the term IRA - or Individual Retirement Account - is sometimes used universally, there are actually several different types of retirement accounts that are available to investors today. These can include versions for individuals, as well as for business owners and employees of certain types of businesses.

NOTES

TRADITIONAL VERSUS ROTH IRAS

When it comes to individual IRA accounts, there are two primary types, or categories. These include the traditional and the Roth IRA. While each of these accounts offers some similarities, there are also a number of key differences between the two.

Traditional IRA accounts have been in existence for more than 40 years. As previously discussed, these accounts can allow you a way to save for retirement that provides you with a number of tax-related advantages.

For example, the contributions that you make into a traditional IRA may be either fully or partially deductible from you annual taxable income. This means that, if you are able to fully deduct your contribution, you will not have to pay income tax for the amount of that year’s contribution.

The funds that are inside of your traditional IRA account are allowed to grow on a tax-deferred basis, meaning that any of the gain that takes place in the account will not be taxed until the time of withdrawal.

In the case of a traditional IRA account - provided that all of your contributions go in on a pre-tax basis - 100% of the money that is withdrawn will be taxed at your then-current income tax rate.

For some investors, the income tax rate in retirement will be lower than the rate they paid during their working years - and if that is the case, it could mean that you’ll benefit even more from a tax perspective.

There are certain rules that must be followed with a regular, traditional IRA. These include:

- Depositing only up to the maximum annual contribution amount. (In 2017, this is $5,500 if you are under age 50, and $6,500 if you are age 50 or older);
- Taking out the required minimum distribution amount each year, once you have turned age 70 1/2. (At that time, you also may not make any additional contributions into the account).

Roth IRA accounts came into existence in 1997. With a regular Roth IRA, the contributions will go into the account after the funds have been taxed. However, the money that is inside of a Roth IRA are allowed to grow tax-free - and, at the time they are withdrawn, funds can also come out of a Roth IRA free of taxation. This can allow an investor / retiree to use 100% of the money that is withdrawn.

As with the traditional IRA, there is an annual maximum contribution that can be deposited into a Roth IRA account. This, too, in 2017, is $5,500 for investors who are under the age of 50, and $6,500 for those who are age 50 and above.

*Note: If an investor owns both a traditional and a Roth IRA, the total amount

NOTES

of yearly contribution (for 2017) is $5,500 or $6,500, depending on your age. Therefore, an investor may not contribute these dollar amounts into both IRA accounts).

Unlike a traditional IRA, there is no requirement to start making any withdrawals when a Roth IRA account holder turns age 70 1/2. In addition, contributions into a Roth IRA can still continue to be made - in turn, allowing the tax-free growth of funds for a longer period of time.

In the case of either a traditional or a Roth IRA, most withdrawals from the account may incur an "early withdrawal" penalty of 10% by the IRS (Internal Revenue Service) if taken out before the account owner is age 59 1/2.

There are, however, some exceptions to the age 59 1/2 rule, such as:

- If the IRA owner becomes totally and permanently disabled
- If the funds being used for qualified higher education expenses
- If the money is taken out as a series of substantially equal payments
- If the money is for a first-time home purchase - up to $10,000 - for qualified individuals
- If the IRS has levied the plan
- If funds are used for unreimbursed medical expenses - up to 10% of the individual's adjusted gross income
- If it is used for health insurance premiums that are paid while the investor is unemployed
- If the money is used for certain distributions to qualified military reservists who are called into active duty.1

COMPARING REGULAR VERSUS TRULY SELF-DIRECTED IRAS

In terms of the contribution amount, as well as the tax-related benefits, a regular traditional and Roth IRA account are similar to truly self-directed IRA accounts. However, a truly self-directed IRA account will offer a list of other key benefits.

For example, first, the list of assets that are allowed to be included in a self-directed IRA account is nearly endless - and more choices mean more flexibility for the account owner, as well as more diversification and control.

In terms of its basic structure - as well as the tax advantages that are offered - a self-directed IRA account is technically no different than other IRA accounts. This means that there is both a traditional and a Roth self-directed IRA account option for investors.

NOTES

ALLOWABLE INVESTMENTS IN A TRULY SELF-DIRECTED IRA

In addition to being able to invest in all of the financial vehicles that are allowed in regular IRAs - such as stocks, bonds, mutual funds, and certificates of deposit - there is also a fairly wide array of other items that can also be held within a truly self-directed IRA. These include the following:

- Residential real estate
- Commercial real estate
- Mortgages and deeds
- Second mortgages
- Private notes and loans
- Private placements
- Receivables
- Currency
- Gold
- Futures
- Commercial paper
- Limited Liability Companies
- Limited Partnerships
- Raw land
- Apartments
- Mobile homes

In fact, contrary to what many people may believe, the Internal Revenue Service (IRS) does not put very many limits at all on the types of assets in which a self-directed IRA account holder may invest.

UNDERSTANDING THE IRA CUSTODIAN

In addition to the longer list of acceptable investments, truly self-directed IRA accounts can differ in other ways, too, when compared to regular IRA accounts. For example, a self-directed IRA is held by a trustee, or custodian, that permits the investment into these broader set of assets.

While a custodian - such as a bank, credit union, trust company, or other entity - is actually required for all IRAs, it is important that the custodian that you choose for your self-directed account allow investors to invest in vehicles other than traditional options, such as real estate, promissory notes, tax lien certificates, and other such items.2

Based on IRS rules, an IRA custodian must adhere to and meet stringent requirements, and also allow for regulatory oversight and audits. The

NOTES

custodians that meet these IRS standards will be given the authority to hold title to assets, investments, or property, as well as to issue funds by writing checks, issuing wires, and through other viable methods.

In addition to IRA custodians, the truly self-directed IRA market place also includes many self-directed IRA administrators and promoters. These are not the same thing as an IRA custodian. For example, a self-directed IRA administrator is only responsible for the following types of activities:

- Marketing
- Selling
- Data entry
- Producing statements
- Basic financial reporting

Therefore, in order to complete transactions within a self-directed IRA account, an administrator must establish a relationship with a self-directed IRA custodian or with a trust that is allowed to hold IRA funds and investments.

WHAT TO LOOK FOR IN A SELF-DIRECTED IRA CUSTODIAN

When establishing a relationship with a self-directed IRA custodian, there are some questions that should ideally be asked before moving forward with establishing an account. These include inquiring about:

- If they have a focus on, and expertise with, truly self-directed IRAs.
- How the custodian is regulated.
- How (or even if) they are insured.
- What licenses and credentials they possess.
- If there is a minimum initial investment amount.
- If they offer brokerage and / or other similar services.
- What the prices are for their services.
- Whether or not you can access your account online.
- If they have relationships established with other professional organizations in the self-directed IRA field.
- How long it will take to set up and establish a self-directed IRA account.
- What type of approach they typically take with their clients' investments.

Ideally, investors will want to work with a self-directed IRA custodian that has expertise in the type of investing they will focus on. So, if you plan to focus on real estate transactions within your self-directed IRA, then it can be extremely

NOTES

beneficial to work with a custodian that has experience in property-related IRA transactions.

In addition, once you have found a custodian that deals with real estate, you will also want to inquire about the type of real estate transactions they focus on. For example, there are some custodians that may deal only with raw land investments, while others have a focus on either residential or commercial properties.

WHAT IS CHECKBOOK CONTROL?

With a self-directed IRA account, you may also have "checkbook control." This is a term that is used when a self-directed IRA account holder has complete signing authority over their retirement funds.

In order to obtain checkbook control with your self-directed IRA account, it is first necessary to establish an LLC (Limited Liability Company). This LLC will be owned by the IRA. After the LLC has been set up, a business checking account can be opened in the IRA's name.

This checking account will, in turn, be linked to the self-directed IRA funds. And, when the investor elects himself or herself as the LLC's managing member, they can then control the checkbook in order to make investments for the account.

A self-directed IRA with checkbook control, then, can provide you with much more investment freedom, as it can allow you to manage your IRA investments with ease, as well as to purchase investments much more quickly - which, with real estate, can oftentimes make the difference between obtaining a profitable property or losing out on the deal.

4.2 HOW TO PROPERLY FUND A SELF-DIRECTED IRA

Before being able to make any investments in a self-directed IRA account, the IRA must have funds available. There are actually several ways that a self-directed IRA account can be funded. These include the following:

- Cash Deposit - Just like with a regular IRA account, cash deposits can be made (up to the annual maximum contribution amount) directly into the account. Typically, IRA deposits for a particular year can be made through April 15th of the following year. For example, an investor's 2017 IRA contribution is able to be made up until April 15th of 2018.
- Transfer - If you already have an IRA account set up, you may transfer some or all of the funds from that IRA into a self-directed IRA account. (It is important to note that, if you are transferring traditional IRA funds into a Roth IRA account, there could be tax consequences

NOTES

on these funds).

- Rollover - You may also be able to rollover funds from a prior 401(k) and / or other type of qualified plan balance. The self-directed IRA custodian can initiate and administer a transfer and / or the rollover of funds from a current account to a self-directed IRA. While there is no limit on the dollar amount that can be transferred, the IRS only allows investors to do this one time per year - regardless of the number of IRA accounts that are owned by the investor.3

As long as the funds in an IRA transfer or IRA rollover go directly from one account to another, there are no tax consequences (unless going from a traditional to a Roth account). Likewise, there will be no early withdrawal penalty, even if the investor is under the age of 59 1/2.

4.3 MAKING SURE YOU FOLLOW ALL OF THE RULES

One of the biggest keys to success when investing through a self-directed IRA is ensuring that the IRS rules are adhered to. There are a number of key regulations that relate to self-directed IRAs.

While each of the IRS rules will be discussed in more detail later in this guide, the primary self-directed IRA rules include the following:

- Prohibited Transactions - Based on IRS regulations, everything that the account engages in must be for the exclusive benefit of the retirement plan. Therefore, for example, an investor will not be allowed to purchase real estate using self-directed IRA funds for his or her own personal use (or even for the use of his or her family members).
- Disqualified Persons - As it relates to prohibited transactions, there are a number of individuals and entities that are considered to be “disqualified” in terms of benefitting from self-directed IRA investments. These include the self-directed IRA owner, as well as his or her spouse. Disqualified persons also include the IRA account owner’s ancestors (such as his or her parents and grandparents), their lineal descendents (such as children and grandchildren), and the spouses of the lineal descendents. Likewise, those who provide services to the IRA plan, such as fiduciaries, are also considered to be disqualified persons, as are any business entities that are related to the account in which any of the above-mentioned persons has a 50% or greater interest.4

Although there are various rules that must be followed in terms of setting up, funding, and transacting investment sales and purchases, the benefits that can be garnered with a self-directed IRA account are many - including both

NOTES

tax advantages and the opportunity to grow retirement assets for the future.

4.4 ASSIGNMENT

A truly self-directed IRA will allow a much more broad selection of assets that can be purchased via the account as versus a regular IRA. List at least 10 assets that are not allowed in a regular IRA but can be obtained via a self-directed IRA.

Answer:

- Residential real estate
- Commercial real estate
- Mortgages and deeds
- Second mortgages
- Private notes and loans
- Private placements
- Receivables
- Currency
- Gold
- Futures
- Commercial paper
- Limited Liability Companies
- Limited Partnerships
- Raw land
- Apartments
- Mobile homes

NOTES

4.5 CHAPTER QUIZ

1. If you are able to fully deduct your contribution, you will not have to pay income tax for the amount of that year's contribution.

a. True

b. False

2. The funds that are inside of your traditional IRA account are allowed to grow on a __________ basis, meaning that any of the gain that takes place in the account will not be taxed until the time of withdrawal.

a. tax free

b. tax deferred

c. tax credited

d. None of the above

3. In the case of a traditional IRA account - provided that all of your contributions go in on a pre-tax basis - _____% of the money that is withdrawn will be taxed at your then-current income tax rate.

a. 0%

b. 28%

c. 50%

d. 100%

4. Which type of IRA account requires you to take out a minimum amount of contribution each year, once you have turned age 70 1/2.

a. Traditional

b. Roth

c. Both

d. Neither

5. __________ is a term that is used when a self-directed IRA account holder has complete signing authority over their retirement funds.

a. custodial

b. deductible

c. checkbook control

d. diversification

NOTES

Sources

1. Retirement Topics - Exceptions to Tax on Early Distributions (https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-tax-on-early-distributions)

2. Investor Alert: Self-Directed IRAs and the Risk of Fraud. SEC Office of Investor Education and Advocacy. (https://www.sec.gov/investor/alerts/sdira.pdf)

3. IRA One-Rollover-Per-Year-Rule. Internal Revenue Service. (https://www.irs.gov/retirement-plans/ira-one-rollover-per-year-rule)

4. Retirement Topics - Prohibited Transactions. IRS. (https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-prohibited-transactions)

NOTES

LESSON 4: GETTING YOUR SELF-DIRECTED IRA SET UP

While truly self-directed IRA accounts are not nearly as common as regular IRAs, these accounts are not difficult to set up and establish. Nor does it take much time to get started with investing in these types of accounts.

In order to get started investing in real estate via your IRA, it will first be necessary to set up a self-directed IRA account. It is important to ensure that the self-directed IRA is not one where you are simply allowed to choose from a limited selection of stocks, bonds, mutual funds, and CDs, but rather a truly self-directed account where you have the freedom to purchase and sell nearly any type of tangible or intangible asset.

5.1 OPENING A SELF-DIRECTED IRA ACCOUNT

Opening a self-directed IRA account can be fairly straightforward, and there are only a few steps that are involved. In order to move forward, it will first be necessary to work with a self-directed IRA custodian.

Once you have chosen a custodian, the account paperwork must be completed in order to establish the IRA account. Establishing an account with a self-directed IRA custodian is also quite easy, and the process will typically only take a few minutes in order to fill out the application.

When doing so, you will need to determine which type of self-directed IRA account you are opening - a traditional or a Roth - as the tax related rules and benefits can differ between these two types of accounts.

When opening an IRA account with a custodian, you will (or should) typically be provided with information such as the following:

- IRA Custodial Account Agreement and Disclosure Statement
- Financial Disclosure
- IRA Fee Schedule
- Privacy Notice

You will also need to provide the IRA custodian with proof of your identity. This can be done with a valid state-issued driver's license or by providing a copy of a valid government-issued photo ID.

In addition, the custodian will also need to know what type (or types) of investments you intend to purchase in the IRA account. For example, precious metals, equities, private equity, private debt, structured settlements, and / or

NOTES

real estate.

5.2 FUNDING YOUR NEW IRA

Once the self-directed IRA account has been opened, it can be funded. This can take place in a number of different ways. These include making a direct cash deposit, transferring funds into the account from an existing IRA account, and / or moving money into the account by way of a direct rollover from a retirement account such as a 401(k).

DIRECT CASH DEPOSIT

Likely the quickest way to get funds into a self-directed IRA account is by making a cash deposit. Each year, investors are allowed to deposit up to a maximum amount of money into an IRA (or multiple IRAs). In 2017, the maximum allowable IRA deposit for those who are under age 50 is $5,500 and for those age 50 and over, it is $6,500.

There are some additional stipulations with regard to making IRA contributions, depending on whether or not you are a participant in an employer-sponsored retirement plan, the type of IRA account you have, your annual adjusted gross income amount, and / or your tax filing status.

For example, if the IRA is a Roth account, the annual contribution limit - and even the eligibility to have this type of IRA - is dictated by the amount of annual gross income (AGI) that you earn, and the way in which you file your taxes.

2017 Roth IRA Contribution Income and Tax Filing Rules

TAX FILING STATUS	AGI LIMIT FOR FULL CONTRIBUTION	PARTIAL CONTRIBUTION ALLOWED	NO CONTRIBUTION ALLOWED
Single / Head of Household	$118,000	$118,000 - $132,999	$133,000 or more
Married Filing Jointly	$186,000	$186,000 - $195,000	$196,000 or more
Married Filing Separately	$0	$0 - $9,999	$10,000 or more

Source: IRS.gov

The amount of annual income that you earn is not a factor in contributing to a traditional IRA account. However, not everyone will be able to qualify for a tax-deductible contribution. In this case, if you are eligible for a retirement plan via your employer, then you may or may not be able to take the traditional IRA contribution deduction.

NOTES

ROTH VERSUS TRADITIONAL RETIREMENT ACCOUNTS

TAX FILING STATUS	DEDUCTION PHASE-OUT RANGE BASED ON ANNUAL INCOME
Single / Head of Household	$62,000 - $72,000
Married Filing Jointly	$99,000 - $119,000
Married Filing Separately	$0 - $10,000

Source: IRA.gov

TRANSFERRING FUNDS FROM AN EXISTING IRA ACCOUNT

If you already have a regular (not self-directed) IRA account set up and funded, you could also opt to directly transfer some or all of the money in that IRA to a new self-directed IRA. In this case, you typically just need to complete a transfer request form through your new self-directed IRA custodian.

The new custodian will then forward the form to your current IRA custodian(s) in order to initiate the transfer. Going this route can usually take between one and four weeks, depending on your current custodian.

ROLLING FUNDS OVER FROM A QUALIFIED RETIREMENT ACCOUNT

If you have a 401(k) or other qualified retirement plan that is sitting with a former employer, these funds can also be moved into your new self-directed IRA account. Here again, you will have to contact your plan's administrator and request the necessary forms to initiate a direct rollover to an IRA account. Depending on the current plan's administrator, this method may also take anywhere from one week to one month.

5.3 CHOOSING AN IRA LLC STRUCTURE

When investing in a self-directed IRA account, the custodian that you work with must typically grant permission for each investment that you make in the account. This requirement can pose some challenges due to the time that it can take for obtaining this permission - particularly if you are investing in highly time-sensitive assets like real estate deals and / or tax lien certificates.

NOTES

So, while a self-directed IRA can provide you with a great deal more flexibility than a regular IRA account can, it will still be necessary to obtain custodial approval for the assets that enter into the account, and there is the issue of custodial fees.

One type of self-directed IRA account that can offer you more flexibility and control - and that does not require custodial permission for investments - is an IRA LLC structure. A self-directed IRA LLC invests in and owns an LLC, or Limited Liability Company. As the owner of the LLC, you - the IRA account holder - can set up you own personal strategy for the buying and selling of assets in the account.

When investing through an IRA LLC, the IRA owner will also have what is referred to as "checkbook control". This refers to a self-directed IRA investor's ability to simply write a check from the IRA LLC's checkbook when purchasing investments within the IRA LLC.

An IRA LLC can provide you with the ultimate freedom to invest in a long list of assets, while at the same time, only having to pay a few hundred dollars (on average) each year for a custodian to hold the IRA account.

In order to move forward with an IRA LLC, a self-directed IRA account must be established. In addition, a Limited Liability Company must also be set up, along with a bank account for the LLC. This LLC will be owned by the IRA account.

Once the LLC has been established, the IRA will invest in the LLC by purchasing members units of the LLC, and then rolling some or all of the investor's IRA funds into the bank account of the LLC. In doing so, the money will no longer be held with the IRA custodian.

After this has been set up, the LLC will be able to invest in a wide array of assets - including residential and commercial real estate - while giving the IRA investor much more hands-on control over the assets that flow into and out of the account.

In addition, because the IRA investor will have checkbook control, there is also more immediate access to the IRA LLC funds, which in turn, can allow the ability to move forward on time-sensitive deals much more quickly and seamlessly, and without the need to obtain custodial approval, as well as having to pay transactional fees, holding fees, and / or other asset based fees.

5.4 BUILDING YOUR SELF-DIRECTED IRA ADVISORY TEAM

Just as in any other facet of investing, it is important to have advisors in several different areas in order to help ensure that you are working within the parameters of IRS regulations, and that you are able to maximize your tax-advantaged investing.

NOTES

In addition, if you plan to use your self-directed IRA funds to invest in real estate, it is also advantageous to have someone who is looking out for the right types of deals that can benefit you financially.

With that in mind, some key members to include on your self-directed IRA advisory team would encompass the following:

- IRA Custodian
- Accountant or CPA
- Attorney
- Real estate agent or broker

When you are selecting a self-directed IRA custodian, it is important to be sure that they deal specifically with these types of accounts. There is not a very long list of self-directed IRA custodians to choose from in this area. One reason for this is because self-directed IRA accounts can require many more hours to complete asset purchases such as real estate as versus traditional equity investments.

Due to the increased amount of time that can be involved with self-directed IRA transactions, custodians may have various charges and fees that are associated with buying and selling assets within these types of accounts.

However, if you have your account is structured as an IRA LLC, you may not be subject to many of the fees that are oftentimes associated with self-directed IRA investing. This is because an IRA LLC typically eliminates custodial involvement with the investment transaction. In this case, for instance, an IRA LLC account holder will essentially work as his or her own broker - which in turn, can save both time and IRA custodian-related transaction fees.

When choosing all of your other advisory team members, it can be extremely beneficial if they don't just have experience in their own respective fields, but also that they have experience in working with self-directed IRA investors.

NOTES

5.5 ASSIGNMENT

There can be some key differences between a self-directed IRA and an IRA LLC structure. For this assignment, list two of the primary differences between these two types of accounts.

Answer:

- The types of assets that can be purchased and sold within the account
- Checkbook control

NOTES

5.6 CHAPTER QUIZ

1. Which of the following are valid ways to fund a self-directed IRA account.

a. Direct cash deposit

b. Transfer funds from an existing IRA account

c. Roll funds over from a qualified retirement account

d. All of the above

2. A(n) __________ can provide you with the ultimate freedom to invest in a long list of assets, while at the same time, only having to pay a few hundred dollars (on average) each year for a custodian to hold the IRA account.

a. Regular traditional IRA

b. Regular self-directed IRA

c. IRA LLC

d. All of the above

3. Which of the following are key members of a self-directed IRA advisory team.

a. IRA Custodian

b. Attorney

c. CPA or Accountant

d. All of the above

4. If you have your account structured as an IRA LLC, you may not be subject to many of the fees that are oftentimes associated with self-directed IRA investing.

a. True

b. False

5. Because truly self-directed IRA accounts are not nearly as common as regular IRAs, these accounts are very difficult to set up and establish.

a. True

b. False

NOTES

LESSON 5: MAKING REAL ESTATE PURCHASES WITH A SELF-DIRECTED IRA

When investing in real estate, most investors will be subject to capital gains taxes when they sell and profit on a property, as well as possible income tax on the rental income that they receive.

But imagine if you could still profit on your real estate deals and not have to pay a percentage of your gain or income to Uncle Sam. And, what if these funds could then go into an account and continue to earn tax-deferred or tax-free returns. This is what you can do if you invest in real estate through a self-directed IRA.

Having real estate in your portfolio can help you to diversify much more than only owning stocks, bonds, mutual funds, and / or CDs. In fact, as many real estate investors already know, owning property can provide you with a hedge against the volatile stock market.

Just about any type of real estate can be purchased inside of a self-directed IRA account. Because of this, it can allow those who choose to purchase and sell property the opportunity to multiply returns, due to the tax related advantages that are offered through IRAs.

6.1 FINANCING THE PROPERTY

Locating and researching property for purchase through your self-directed IRA account is technically no different than researching and purchasing any other type of investment property - other than having to follow the IRA rules with regard to incoming and outgoing funds that are related to the property. Likewise, the actual process of purchasing rental real estate in a self-directed IRA is quite similar to the regular process that is followed, with a few exceptions.

If you do not use cash to purchase property for your self-directed IRA account, it may be necessary to obtain funding. If this is the case, you can borrow funds through your IRA. When you do so, however, the borrowed funds must be from a “non-recourse” loan. When borrowing through this type of loan, the funds are not borrowed by you personally, but rather by your self-directed IRA account.

USING A NON-RECOURSE LOAN

A non-recourse loan is one that is typically secured by collateral rather than by

NOTES

the borrower's credit. In the case of financing investment real estate, the non-recourse loan would be secured by the property.

In this situation, if the borrower defaults on making the loan's re-payments, the lender can seize the property, and then liquidate it, in order to help with covering some or all of the amount of the default. The lender cannot, however, seek out the borrower for any compensation.

In order to help with covering its potential downside risk, the lender on a non-recourse loan will oftentimes require a higher amount of down payment as compared to financing with a recourse loan.

Here, the down payment would typically be between 30 and 50 percent of the property's purchase price. Also, the interest rate on a non-recourse loan will usually be higher as compared to that of a recourse loan.

It may also be required that the borrower keep a certain amount of cash available in order to ensure that there is money for any of the property's expenses. In this case, the liquid cash will need to be in the self-directed IRA account, as any of the income and expenses that are related to the property you purchase must come and go through the IRA.

Depending on the lender, it may be required that you keep an additional 20 percent of the loan value available in cash within the IRA account. This figure is in addition to the amount of money you would need for the down payment and other closing costs.

KEEPING INCOME AND EXPENSES PROPORTIONAL

When you own a property inside of a self-directed IRA account, it is essential that you keep the amount of your income and your expenses proportional if the property was purchased using any borrowed funds.

If a property that you purchase within your self-directed IRA account is obtained using financing, some of the rental income that is received could be subject to unrelated debt financed income, or UDFI, tax in any year that you generate a profit on the property.

According to the IRS, for a debt-financed property, "the unrelated debt financed income is that amount which is the same percentage - not to exceed 100 percent - of the total gross income that is derived during a taxable year from such property as the average acquisition indebtedness regarding the property is of the average adjusted basis of the property."

What this means is that the amount of the funds that are taxable would be in proportion to the amount that you financed to purchase the property. As an example, if your self-directed IRA borrowed 70 percent of the purchase price of the property, then 70 percent of the income that the property generates could be subject to UDFI taxation. The reason for this is because the amount

NOTES

of the purchase that was financed from an outside source is not considered tax-deferred money.

However, the annual rental income that is received from the property would also be taken into consideration when figuring the amount of UDFI-related tax. For instance, if the property took in $10,000 in annual rent, then the IRS would assess UDFI tax on roughly $7,000 of the profit. This is because 70 percent of the income generated came from leverage.

When figuring the amount of UDFI tax, the average indebtedness over the past 12 months is considered, and then divided by the adjusted basis in the property (which is usually the original purchase price).

Therefore, as the total amount of the mortgage is paid down every year, the amount of UDFI tax will also be reduced - and, a year after paying off the mortgage in full, there will no longer be any UDFI tax obligation.

INVESTING WITH PARTNERS

Just like purchasing property outside of an IRA account, when you buy property within your self-directed IRA, you are allowed to do so in conjunction with partners. If you decide to purchase real estate with a partner, your self-directed IRA account can buy an undivided interest in the property.

In this case, all of the income and expenses that are related to the property must come and go via the IRA account. However, when a partner (or partners) is involved, you will also need to make sure that all income and outgo is proportional to your share of the property.

For example, if you and a partner invest 50 / 50 on a property, then 50 percent of the property's expenses must come from your IRA, and likewise, 50 percent of the income that is derived from the property must go into your IRA account. And, when the property is sold, your IRA account should receive the portion of the proceeds that match the percentage of your IRA's investment in the property.

When investing with partners via your self-directed IRA, you will oftentimes enter into the transaction together as tenants-in-common. Tenancy in common allows two or more people or entities to have ownership interest in a property. In this case, each of the owners will have the right to leave his or her share of the property to any named beneficiary upon that owner's death.

Each investor will appear on the property's deed (which is the legal document that gives title to the property) as a percentage owner, based upon each investor's contribution towards the full purchase price of the property.

For instance, if you purchased a property with partners for $100,000 and your self-directed IRA contributed $10,000 towards buying the property, then the grant deed would specify that your IRA account is a 10 percent owner.

NOTES

COMBINING PERSONAL AND IRA FUNDS

If there is not enough money in your self-directed IRA account to fully purchase a property, and you do not wish to work with a partner or to finance part of the transaction, you may be able to combine your personal funds with your IRA funds in order to make an all cash purchase.

One way to do this is to use a tenancy-in-common structure. This would work similarly to the tenants-in-common approach when purchasing property with partners, except that your IRA could contribute some of the funds, and you personally would contribute the rest.

USING A LEASE OPTION STRATEGY

Yet another way to invest in real estate through your self-directed IRA account is to do so by way of a lease option. Typically, a lease option will include the following steps:

- Entering into a lease through your IRA account. This lease would include a sub-lease, as well as the option to purchase the property for a set price in the future.
- Subleasing the property through your IRA account to a third party.
- Having the third party rent the property, and then purchase the property at a set amount in the future.

In this case, when the property is sold, any amount of profit should be returned to your self-directed IRA account.

Regardless of how you structure your property purchase and the financing, it is important to work with knowledgeable legal and / or accounting professionals when enacting these types of strategies, as you will want to be sure that you are properly following of the rules. Otherwise, you could leave yourself and / or your IRA account subject to potential penalties.

6.2 USING AN IRA LLC

As previously discussed, you may opt to go the route of an IRA LLC. If this is the case, your LLC (Limited Liability Company) is considered to be a distinct legal entity. Because this type of self-directed IRA structure provides you with easy access to your funds, you will be able to act more quickly if a competitive real estate deal comes along.

If you use the IRA LLC structure, then you will also be allowed to join forces with others in making investments. This is possible because technically, you are dealing with the company, and not with the underlying members.

NOTES

With an IRA LLC, you will have a bank account that can be used only by the LLC. Because of that, you will be able to make your real estate purchases directly, and without having to obtain custodial approval.

When you purchase property within an IRA LLC, it is important that the following requirements are met:

- The LLC must ensure that all of the IRS and Department of Labor rules and requirements are properly followed;
- If the LLC finances a property in the IRA account, then the LLC must pay any of the required UDFI taxes that are due;
- The LLC must distribute dividends to LLC owners (if applicable), based upon the percentage of ownership of each.

6.3 THE PROPER WAY TO RECEIVE RENTAL INCOME

Unlike investment property that you own under your own name or through a business, you are not allowed to personally receive rental income on property that you own in your self-directed IRA account. Rather, this rental income must go directly into the IRA account when it is received.

In some cases, if you are working with an IRA custodian, the tenant(s) may send their rent checks directly to the custodian for deposit into your IRA account. Alternatively, the checks may be received by you or by a property manager, who in turn, will forward the funds to the IRA custodian (if applicable), or directly to the IRA LLC.

Likewise, when there are any expenses that are used for the investment property - such as maintenance and / or repairs - the funds must come directly out of your IRA account, rather than from your own personal account.

If you do place rental income in a personal account and / or you use your personal funds towards the property's expenses, it can be considered as "co-mingling" of funds, which in turn, may be considered a prohibited transaction. This could cause the self-directed IRA to lose its tax-advantaged status.

6.4 HIRING A PROPERTY MANAGER

Depending on how involved you intend to be with your real estate investment(s), it will oftentimes make sense to hire a property manager to handle the many duties that are affiliated with owning rental real estate. There are some instances where you as the IRA account owner may not be allowed to manage the property.

The activities of a property manager will typically include the following:

NOTES

- Advertising the property for rent
- Screening potential tenants
- Checking information and references on the rental property applications
- Obtaining a security deposit
- Receiving monthly rent from the tenant(s)
- Making necessary repairs to the property
- Ensuring that all of the day to day maintenance is taken care of

When you are in the process of hiring a property manager, be sure that they are professional, and that they also have experience in working with properties that have been purchased via a self-directed IRA account. This can help you to better ensure that all of the specific rules are followed as they relate to self-directed IRAs.

6.5 SAMPLE TRANSACTION - CASE STUDY

Jeff had $75,000 in his self-directed IRA LLC account. After finding a suitable property to be used as a rental, Jeff was able to purchase the property in cash for $60,000. After paying closing costs of $2,000, Jeff had $13,000 remaining in his IRA account that could be used as a "buffer" in case any emergency expenses for the property came up.

Jeff was able to rent out the property for $600 per month, and he had his tenant make out her monthly rent check to his IRA LLC. After factoring in property taxes of approximately $50 per month and monthly maintenance of another $50, Jeff made a profit of roughly $500 per month on his investment.

6.6 CHECKLIST FOR INVESTING IN REAL ESTATE THROUGH A SELF-DIRECTED IRA

When purchasing property in a self-directed IRA, there are several key steps that you should follow. These include:

- [ ] Decide whether the property will be purchased directly, or via an IRA LLC.
- [ ] Locate appropriate real estate investment(s) for your account, based on your specific goals.
- [ ] Submit a purchase offer in the name of your IRA.
- [ ] Complete an investment authorization form from your IRA custodian (if you are not purchasing the property via an IRA LLC) which indicates the property that you intend to buy, and the amount of your deposit.

NOTES

- [ ] Consult with an attorney and / or title company in order to close on the property.
- [ ] Obtain approval from your IRA custodian (if you are not purchasing the property via an IRA LLC), and forward the signed paperwork to the attorney or title company prior to closing.
- [ ] Have the attorney or title company prepare any additional documents that may be needed, such as the 1) Finalized purchase contract; 2) Escrow statement, which outlines all of the costs, and the net amount that is due from your IRA account upon closing; 3) A preliminary insurance report; 4) Evidence of property insurance; 5) Instructions for funding; 6) Any additional required documents.
- [ ] Obtain a non-recourse loan, if the purchase will require financing.
- [ ] Have your IRA custodian sign the mortgage note.
- [ ] Obtain property insurance, and pay the premium through your IRA account.
- [ ] Hire a property manager for the property (if applicable).
- [ ] Have your IRA custodian send the necessary proceeds for closing from your IRA account to the title company or attorney who is handling the closing (if you are not purchasing the property via an IRA LLC).
- [ ] Ensure that all of the documents are properly titled (for instance, the property will be owned by the IRA account, so it would be titled as: <Custodian> FBO <Your Name> IRA.
- [ ] Have the attorney or title company pay the funds for the down payment, closing costs, and any other necessary expenses out of the escrow.
- [ ] Have the deed to the property issued to your IRA custodian or IRA LLC.
- [ ] Ensure that all of the income and the expenses that are related to the property come and go via the self-directed IRA account.

NOTES

6.7 ASSIGNMENT

One way to invest in real estate through a self-directed IRA account is to do so by way of a lease option. List the following steps that are typically included in this process.

Answer:

- Entering into a lease through your IRA account. This lease would include a sub-lease, as well as the option to purchase the property for a set price in the future.
- Subleasing the property through your IRA account to a third party.
- Having the third party rent the property, and then purchasing the property at a set amount in the future.
- In this case, when the property is sold, any amount of profit should be returned to the self-directed IRA account.

NOTES

6.8 CHAPTER QUIZ

1. Very few types of real estate can be purchased inside of a self-directed IRA account.

a. True

b. False

2. When financing a property purchase through a self-directed IRA, it is necessary to obtain a(n) __________ type of loan.

a. recourse

b. non-recourse

c. personal

d. business

3. Based on IRA rules, the __________ is that amount which is the same percentage - not to exceed 100 percent - of the total gross income that is derived during a taxable year from such property as the average acquisition indebtedness regarding the property is of the average adjusted basis of the property.

a. recourse loan

b. non-recourse loan

c. unrelated debt financed income

d. None of the above

4. __________ allows two or more people or entities to have ownership interest in a property. In this case, each of the owners will have the right to leave their share of the property to any named beneficiary upon that owner's death.

a. joint tenancy

b. tenancy in common

c. sole ownership

d. None of the above

5. If there is not enough money in your self-directed IRA account to fully purchase a property, and you do not wish to work with a partner or to finance part of the transaction, you may be able to combine your personal funds with your IRA funds in order to make an all cash purchase.

a. True

b. False

NOTES

LESSON 6: MAKING MONEY AS A PRIVATE LENDER WITH SELF-DIRECTED IRA FUNDS

While purchasing property within your self-directed IRA account can be lucrative - and can also provide tax advantages - there are other ways that you can invest in the real estate arena without having to buy tangible properties. One way is to become a private lender.

In fact, one of the biggest reasons that many investors will pass on good real estate opportunities isn't because they feel that the property would result in a loss, but rather because they just simply don't have the funds that are required.

By using the money that is in your self-directed IRA, though, you can make this a win-win scenario for both the investor and for yourself - and you can oftentimes obtain a higher-than-market return on these funds.

7.1 THE BENEFITS OF BEING A LENDER USING IRA FUNDS

When you loan money to an investor using your self-directed IRA funds, he or she can repay your IRA account - along with the additional interest - and, because your IRA is a tax advantaged entity, the money that goes back into the account will be able to grow either tax-deferred (with a traditional IRA structure) or tax-free (with a Roth).

The loans that you make with your IRA funds that involve real estate will act just like a mortgage, and they are typically referred to either as mortgage deeds or as trust deeds. Because this type of loan can often take place when the purchaser of property does not secure the funds through a traditional bank or other lender, they are oftentimes also termed as "hard money" loans.

7.2 SECURED VERSUS UNSECURED LOANS

You may make either secured or unsecured loans with your self-directed IRA funds. The most common type of loan will usually be a secured loan. A secured loan is a loan in which the borrower pledges an asset - such as the underlying property - as collateral for the loan.

So, if the borrower should default on his or her payments, you as the lender would be able to take possession of the property or other underlying asset, and

NOTES

in turn, sell it in order to recoup some or all of your loaned funds. When this occurs with real estate, this re-possession is typically considered a foreclosure.

Because there is an asset pledged as collateral, secured loans will usually be considered more secure from a lending perspective than an unsecured loan. With an unsecured loan, funds are loaned based only upon the creditworthiness of the borrower. (Unsecured loans may also be referred to as a "signature" loan or a personal loan). Some examples of unsecured loans include credit cards and personal lines of credit.

Unsecured loans are considered to be more risky for a lender, as there is nothing to recoup if the borrower should default. For this reason, the interest rate that is charged for an unsecured loan is generally higher than that charged on secured loans.

7.3 HOW THE LENDING PROCESS WORKS

In many instances, lending to property purchasers through your self-directed IRA account will be a safer way to go, as the real estate will act as collateral for the loan. In this case, once you start working with a borrower, there are some steps that must be followed in order to put the loan in place.

These steps will typically include the following:

- Property Appraisal - You will first want to have the property appraised. This can help to ensure that the underlying property (collateral) is worth as much - or ideally, more - than the amount being borrowed.
- Title Search - You will also need to contact a title company in order to perform a title search. This can help you to see if there are any unresolved liens on the property.
- Legal Paperwork - Provided that the title is clear, and that the value of the property is sufficient in terms of the amount being borrowed, you will then move forward with having your attorney review the paperwork for the transaction.
- Fund Escrow - Before the closing date of the loan, your IRA custodian should forward the necessary amount of funds from your IRA account to a closing or an escrow agent.

After the loan has closed, your IRA custodian should receive a copy of the recorded mortgage from the closing agent. You (or your IRA custodian or third part loan processor) will then begin to receive the repayments from the borrower, which will be deposited back into your IRA account.

7.4 LOAN PAYMENTS AND SERVICING

Receiving the loan repayments from a borrower can be set up in a couple of different ways. The way in which this occurs can be dependent on whether you have your IRA set up via a custodian or as an IRA LLC.

NOTES

For example, if working through an IRA custodian, the payments from the borrower should be sent directly to the custodian, and the check should be made out to your custodian for the benefit of (or FBO) your IRA.

This would look like the following:

ABC Company Custodian FBO <Your Name> IRA Account

Upon receiving each of the loan payments, your IRA custodian would deposit the money into your IRA account. (Likewise, if the property has any type of expenses, such as for repairs and / or mortgage, the funds that you use for these must come out of the IRA account).

Rather than using your custodian to receive the loan payments, you could instead opt to use a third party loan processor. Before moving forward with this option, the loan processor will typically require copies of all related documents, such as the loan paperwork between you and the borrower.

You may alternatively have the borrower send the loan repayments directly to you. In this case, however, you are not allowed to deposit these funds into any personal accounts, but rather you should forward them to your IRA custodian or third party loan processor for deposit into your self-directed IRA account. Likewise, the borrower should make out the check for the benefit of your IRA account, and not to you personally.

When setting up any type of loan through your self-directed IRA account, it is recommended that you consult with your advisory team, such as your accountant and / or attorney, in order to be sure that everything has been properly initiated, and that the transaction is in compliance with IRS rules.

Also, there are some specialists in the market place who focus primarily in the area of private lending via self-directed IRAs. So, if you do plan to use your IRA funds for lending purposes, you may want to locate a specialist in this niche and add them to your self-directed IRA advisory team.

7.5 IRS RULES TO CONSIDER

The funds that are in your self-directed IRA can be loaned to other investors for many different reasons. These include the purchase of real property, as well as for the purchase of mortgage notes, tax lien certificates, and / or for private placements.

But, prior to moving forward with any such transaction, it is essential to have a good understanding of the IRS (Internal Revenue Service) rules that are associated with these types of transactions.

NOTES

This is because, just like taking part in any other type of prohibited transaction, not following these rules can result in penalties to your self-directed IRA account - including the loss of its tax-advantaged status.

For instance, while you are allowed to loan money to any other person, this does not include those who are considered "disqualified" by the IRS. Here again, according to the IRS, these individuals include:

- Yourself (as the IRA account owner)
- Your ancestors (such as your parents and / or grandparents)
- Your Lineal descendents (including your children and grandchildren)
- The spouses of your lineal descendents
- Fiduciaries and other individuals or entities that provide service to the self-directed IRA account
- Any business entities that are related to the account in which any of the above-mentioned individuals has an interest or 50% or more.

In addition to rules that are set by the IRS, it is also important to know whether or not your particular state has any additional regulations when it comes to these types of private lending situations.

If the loans that you make with your self-directed IRA funds are properly set up, and they are provided to those who make their regular repayments on time, this can be a good source of income for you that will typically earn above market rate returns.

In addition, when these funds then continue to grow either on a tax-deferred or a tax-free basis in your IRA account, this compounding can result in an even higher return on your money over time.

NOTES

7.6 ASSIGNMENT

When a borrower makes his or her monthly loan repayments for money that was loaned through your self-directed IRA, what are the options that are available in terms of sending in these funds?

Answer:

There are several alternatives here, which may depend on how the IRA account is set up. These include the following possibilities:

- Sending the money directly to the IRA custodian
- Sending the money to a third party loan processor
- Sending the money directly to you, the IRA owner

In all cases, though, the check must be made out FBO (for the benefit of) the IRA account, and not to you personally.

NOTES

7.7 CHAPTER QUIZ

1. When money is loaned via a self-directed IRA account, the borrower should make out the check for the repayments directly to the IRA account owner.

a. True

b. False

2. A(n) ___________ type of loan will have property or some other underlying asset that is pledged as collateral.

a. Secured

b. Unsecured

c. Both a and b

d. Neither a or b

3. Unsecured loans are considered to be ______ risky than secured loans.

a. less

b. more

c. the same

4. Which of the following individuals or entities are you allowed to loan money to via your self-directed IRA account.

a. yourself

b. your parents

c. your son or daughter

d. an unrelated investor

5. A(n) ___________ can help you to ensure whether or not an underlying property is worth as much, or more, than the amount of money that is being borrowed from your IRA account.

a. title search

b. appraisal

c. escrow

d. None of the above

NOTES

LESSON 7: TAXES, REAL ESTATE, AND THE SELF-DIRECTED IRA

In many ways, real estate can be an extremely tax-favored asset class, as it can offer many tax-reducing avenues that will oftentimes have an immediate effect on your income tax burden. So, when real estate is purchased within an IRA account, the tax related advantages can increase even further.

In order to take full advantage of the added tax benefits that this type of investing can provide, though, it is important to have a good understanding of what is and isn't allowed, as well as knowing other IRS-related rules that could have an effect on your investments and your IRA account(s) - and in turn, even on your overall retirement lifestyle in the future.

8.1 INCOME TAX LIABILITY

While a self-directed IRA account can offer a number of key tax advantages, it is important to understand just exactly where and when it may still be necessary to pay various tax liabilities per the IRS.

For example, throughout the time that you are investing - and provided that you leave funds in your IRA account - the money in the account is allowed to grow tax-deferred (with a traditional IRA account), or even tax-free (with a Roth IRA account).

So, in the case of a Roth self-directed IRA, the withdrawals that you take from the account will not be subject to taxation in the future. (This is the case, provided that you withdraw the money after you reach age 59 1/2. Otherwise, if you are under this age, you could be subject to an "early withdrawal" penalty by the IRS of 10% of the amount that is withdrawn).

If, however, you are investing in a self-directed traditional IRA account, even though your tax liability will be postponed, you will still need to pay income tax on the money that is withdrawn in the future.

The amount of tax that you owe will be based on your income tax rate at the time you make the withdrawals. It is important to note here that, even though many financial advisors feel that your income tax rate will be lower in retirement, this is not necessarily always the case - especially if your investments and / or other income sources in retirement are the same, or even more, than the income you earned during your working years. Your income tax rate can also

NOTES

be affected by the way in which you file your taxes (i.e., for example, as a single individual, as married filing jointly, or as married filing separately).

Just like with the Roth IRA, you could also be subject to an IRS early withdrawal penalty of 10% (over and above any other tax you owe), if you take funds out of a traditional IRA account before you reach age 59 1/2.

And, if you were allowed to defer your contributions into the traditional IRA (i.e., you were able to avoid paying income tax on the amount that you contributed in given years), then 100% of the amount that you take out of the traditional IRA will be subject to income tax.

Yet, even with a potential future income tax liability, though, the fact that a traditional IRA allows the tax-deferral of gains, it could mean that your investments were able to grow and compound exponentially - especially if you invested in the IRA account over a long period of time.

8.2 UNDERSTANDING UNRELATED BUSINESS INCOME TAX (UBIT)

For many real estate buyers and investors, the use of debt is quite common in order to fund the transaction. In fact, depending on how the purchase is funded, as well as the type and amount of debt that is used, how you set up the funding for your real estate transactions can have a lot to do with how profitable a piece of property ultimately will be.

When using debt to fund your self-directed IRA real estate transactions, though, it is essential to understand that there are some ways in which the debt that is inside of an IRA account could end up diminishing you tax advantages.

For instance, while the law does not prohibit a self-directed IRA account holder from borrowing money, doing so could open up the IRA account to certain tax-related liabilities. This is because the IRS categorizes the income that results from debt in an IRA as “business income,” rather than income from investments.

If this ends up being the case, your IRA account may be liable for unrelated business income tax, or UBIT. According to the United States Internal Revenue Code, “for most organizations, an activity is an unrelated business (and therefore will be subject to unrelated business income tax) if it meets three requirements:

- It is a trade or business
- It is regularly carried on, and
- It is not substantially related to furthering the exempt purpose of the organization.”

NOTES

Unrelated Business Income Tax is actually a unique tax that was created by Congress, and that is designed to apply not only to tax-exempt entities such as churches and charities, but also to retirement accounts under certain circumstances.

The reason behind the creation of UBIT was initially to alleviate unfair competition by exempt entities and organizations with taxable businesses. For instance, when considering a self-directed IRA account, if the IRA was to purchase a business, but it did not have to pay any taxes, then the IRA would essentially be able to deliver the same product or service, but at a discount.

This same set of rules also applies to an IRA's investment in real estate when there is debt incurred for purchasing the property. Therefore, UBIT eliminates that risk for the regular (non-IRA) business owner and investor.

With regard to self-directed IRA accounts, there are actually two sources of unrelated business taxable income. The first one is when an investor invests his or her self-directed IRA funds into an existing business.

In this case, the portion of the business's income that did not come from the IRA purchase may be considered as unrelated business taxable income - and therefore, subject to unrelated business income tax.

The other source of unrelated business taxable income can occur when a self-directed IRA investor uses debt to finance real estate via the IRA account. In this case, the portion of the property purchase that is attributable to the IRA would be considered tax-advantaged. The other portion that is financed through debt, however, could be subject to UBIT.

8.3 REVIEWING IRS CODES AND RULES REGARDING SELF-DIRECTED IRAS

Just as with any other endeavor, complying with the IRS codes and rules with regard to self-directed IRAs is essential to ensuring that your account will be able to maintain its tax-advantaged status going forward.

In doing so, there are several key areas where the Internal Revenue Service has a say in whether or not your self-directed IRA account will be able to maintain its tax-advantaged status, based on whether or not the rules are followed.

Some of the most prominent of these include:

- Prohibited Transactions
- Disqualified Persons
- Self-Dealing / Personal Involvement

NOTES

PROHIBITED TRANSACTIONS

According to the Internal Revenue Service, a prohibited transaction is defined as being "any improper use of the IRA account by you, your beneficiary, and / or any disqualified person." As previously discussed, a disqualified person includes yourself as the IRA owner, as well as the following individuals and entities:

- Your spouse
- Your ancestors and lineal descendents (such as your children and grandchildren)
- Your ascendants (such as your parents and grandparents, as well as your spouse's parents and grandparents)
- Spouses of your lineal descendants
- Any investment manager and / or advisors for the self-directed IRA account
- Anyone providing services to the IRA, such as the trustee or custodian
- Any corporation, partnership, trust, and / or estate in which you own a 50 percent or greater interest1

Self-directed IRA account holders must also be careful not to engage in what the IRS considers to be self-dealing. This means that all of the transactions that take place with regard to the account must be made at "arm's length," and they must not involve the IRA owner - or a member of his or her family.

With that in mind, a prohibited transaction that take place with regard to a self-directed IRA account can include the following:

- A transfer of plan income or assets to, or use of them by or for the benefit of, a disqualified person;
- Any act of a fiduciary by which plan income or assets are used for his or her own interest;
- The receipt of consideration by a fiduciary for his or her own account from any party dealing with the plan in a transaction that involves plan income or assets;
- The sale, exchange, or lease of property between a plan and a disqualified person;
- Lending money or extending credit between a plan and a disqualified person; and
- Furnishing goods, services, or facilities between a plan and a disqualified person.2

NOTES

Likewise, there are also certain types of assets that are not allowed to be purchased for a self-directed IRA (or any IRA account). These include collectibles, such as art, antiques, gems, coins, or alcoholic beverages - and certain precious metals may only be included if they meet specific requirements. Individual retirement accounts are also not permitted to invest in life insurance.3

CONSEQUENCES OF BREAKING THE RULES

Based on Internal Revenue Service rules, if a disqualified person takes part in a prohibited transaction within an IRA account, then the transaction must be corrected. In addition, there will be an excise tax levied by the IRS which will be based on the amount that is involved in that transaction.

In this case, the initial tax on a prohibited transaction is 15% of the amount involved for each year (or part of a year) in the taxable period. If the transaction is not corrected within the taxable period, then an additional tax of 100% of the amount involved will be imposed.4

Both of these taxes are payable by any disqualified person who participated in the transaction - other than a fiduciary who is acting only as such. Therefore, if there is more than one disqualified person who takes part in the transaction, then each of these individuals may be jointly and severally liable for the entire amount of the tax.5

The amount that is considered to be involved in a prohibited transaction will be the greater of the following amounts:

- The money and fair market value of any property given; and
- The money and fair market value of any property received.6

If services are performed, then the amount that is involved will be considered any excess compensation that is given or received.

With regard to the taxable period, this is considered to have started on the date of the transaction, and it ends on the earliest of the following:

- The day that the IRS mails a notice of deficiency for the tax;
- The day that the IRS assesses the tax; and
- The day that the correction of the transaction is completed.7

8.4 CORRECTING A PROHIBITED TRANSACTION

In order to correct a prohibited transaction that took place with regard to an IRA account, the IRS mandates that “the transaction must be undone as much as possible, without putting the plan in a worse financial position than if the disqualified person had acted under the highest fiduciary standards.”

NOTES

If a prohibited transaction is not corrected during the taxable period, then the disqualified person will typically have an additional 90 days after the day the IRS mails a notice of deficiency for the 100% tax to get correct it.

This "correction" period - which encompasses the taxable period, plus the additional 90 days - may be extended, provided that either of the following occurs:

- The IRS grants reasonable time that is needed in order to get the transaction corrected; or
- The disqualified person petitions the Tax Court.8

Therefore, if the transaction has been corrected within this period of time, then the Internal Revenue Service will abate, credit, or refund the 100% tax.9

With this in mind, it is important to ensure that prohibited transactions do not take place within a self-directed IRA, and that disqualified persons are not involved in use of the account's assets for personal use.

However, provided that all of the rules and regulations are followed, these types of accounts can offer a way to enhance the return on your retirement assets - particularly in light of the potential tax-related benefits.

NOTES

8.5 ASSIGNMENT

Self-directed IRA account holders need to be aware of unrelated business income tax, or UBIT, as they could be liable for paying these taxes in certain situations. UBIT can be particularly relevant when an activity is considered to be an "unrelated business" per the account.

State when an activity is considered to be an unrelated business, according to the IRS, and will therefore be subject to unrelated business income tax:

Answer:

According to the United States Internal Revenue Code, "for most organizations, an activity is an unrelated business (and therefore will be subject to unrelated business income tax) if it meets three requirements:

- It is a trade or business
- It is regularly carried on, and
- It is not substantially related to furthering the exempt purpose of the organization.

NOTES

8.6 CHAPTER QUIZ

1. Self-directed IRA account holders must also be careful not to engage in what the IRS considers to be __________. This means that all of the transactions that take place with regard to the account must be made at "arm's length," and they must not involve the IRA owner - or a member of his or her family.

a. tax-deferral

b. self-dealing

c. Both a and b

d. Neither a or b

2. A transfer of plan income or assets to, or use of them by or for the benefit of, a disqualified person is considered by the IRS to be a(n) __________.

a. acceptable transaction

b. deferral of taxation

c. prohibited transaction

d. None of the Above

3. Assets that are allowed to be purchased within a self-directed IRA include which of the following.

a. all types of gold coins

b. life insurance

c. gems

d. real estate

4. The initial tax on a prohibited transaction is _____% of the amount involved for each year (or part of a year) in the taxable period.

a. 100

b. 50

c. 15

d. 0

NOTES

5. Self-directed IRA accounts holders are not able to correct a prohibited transaction once it has taken place.

a. True

b. False

Sources

1. IRS.gov

2. Retirement Plan Investments FAQs. IRS. (https://www.irs.gov/retirement-plans/retirement-plan-investments-faqs)

3. Ibid.

4. Ibid.

5. Ibid.

6. Ibid.

7. Ibid.

8. Ibid.

9. IRS.gov

NOTES

LESSON 8: TAKING THE NEXT STEP

Investing through a truly self-directed IRA account can allow you numerous advantages - starting with a tremendous amount of diversity with regard to the assets you can buy and sell, which in turn, can ultimately provide you with a nice return.

While it may seem that getting a self-directed IRA account open and funded is somewhat overwhelming, the reality is that if you just follow the steps that are provided in this guide, you can have your account up and running quickly, while also making sure that you stay on track with the related IRS rules and regulations.

9.1 WHAT TO DO NEXT TO GET STARTED

Any successful endeavor can be made easier by having a system to follow. Setting up and managing a self-directed IRA account is no different. Below is a checklist that can help you in proceeding through the steps that are required for initially getting your account open and funded, as well as with other actions that are needed both as you get started, as well as for successfully progressing with your self-directed IRA investing.

It is important to keep in mind that there are experts available in the market place who can assist you throughout the process of setting up, funding, and investing in your self-directed IRA account. So, if you have any additional questions, be sure to contact these individuals or companies in order to ensure you are heading in the right direction.

9.2 SELF-DIRECTED IRA SET-UP CHECKLIST

- [ ] Become familiar with the IRS rules that are in place for self-directed IRA account ownership and investing.

- [ ] Research several custodians, and choose one to work with for opening and investing in your self-directed IRA account. If you decide to specialize in real estate investing (or any other specific asset) in your self-directed account, it can be helpful if you work with a custodian that also has expertise in that particular area.

- [ ] Choose which type of self-directed IRA account you will open - traditional or Roth. With a traditional IRA, you may be able to deduct some or all of your contributions, and your funds inside of the account will grow tax-deferred. You will pay tax on your traditional IRA withdrawals. With a

NOTES

Roth IRA, your contributions will go into the account after-tax, however, the funds in the account can grow tax-free, and your withdrawals in the future will also be tax-free.

- [ ] Select the members of your self-directed IRA advisory team. In addition to a custodian, you will also want to have on board with you an accountant or CPA, an attorney, and, if you are planning to invest in property, a real estate agent or broker. It is important to make sure that each of your proposed team members has experience in, and knowledge of, self-directed IRA investing.

- [ ] Open your self-directed IRA account. Typically, this will require filling out and submitting the appropriate paperwork to your IRA custodian.

- [ ] Fund your new self-directed IRA account. There are several ways that you can go about this, including making direct cash deposits (up to the maximum annual limit). You can also transfer funds from an existing IRA account, and / or roll money over from a previous employer-sponsored retirement account, such as a 401(k) plan. If you are transferring or rolling money over into your new account, there is no maximum dollar limit that can be brought into your new self-directed account.

- [ ] If you are going with the IRA LLC concept, complete the necessary paperwork to form the LLC.

- [ ] With an IRA LLC, you will also need to open a checking account in the name of your IRA account. This will give you "checkbook control," which can allow you to act more quickly on investments that you want to purchase for your IRA account.

- [ ] If you plan to invest in real estate, begin to research potential properties - and when you have found viable options, move forward with making an offer on the property.

- [ ] As you make investments through your self-directed IRA account, be sure to keep in mind what constitutes a prohibited transaction, as well as who (or what type of entity) is considered to be a disqualified person.

- [ ] Once you own self-directed IRA assets in your account, make sure that all funds coming in from that investment (such as rental income from a tenant) flow back into the account. Likewise, any expenses that are related to these investments (such as property maintenance) must come from the IRA account as well.

- [ ] Be sure to stay up-to-date on self-directed IRA rules over time. A good resource for doing so is the website of the Internal Revenue Service, which can be found at www.IRA.gov.

In addition to the diversification and tax-advantages that self-directed IRA account investing can provide, going this route can also put you in control of the assets you invest in - and ultimately in your future financial freedom.

NOTES

9.3 ASSIGNMENT

Opening a self-directed IRA account may sound overwhelming at first. However, by following a step-by-stem system, the process can be done much more quickly and easily. It can also help you to ensure that you are headed in the right direction as far as various rules and regulations are concerned.

List some of the important points with regard to staying within the rules of self-directed IRA investing.

Answer:

- Not investing in prohibited transactions
- Not including disqualified persons in your IRA transactions
- Not depositing more than the annual maximum amount that is allowed in an IRA
- Putting a self-directed IRA advisory team in place - which includes an accountant / CPA and an attorney
- Ensuring that all money that is related to your self-directed IRA investments flows directly in and out of the IRA account
- Regularly reviewing the information with regard to self-directed IRA accounts that can be found on the IRS website

NOTES

9.4 CHAPTER QUIZ

1. Your self-directed IRA account advisory team should ideally include which of the following individuals or entities.

a. attorney

b. accountant or CPA

c. IRA custodian

d. All of the Above

2. Which of the following methods can allow you to fund your self-directed IRA.

a. direct deposit (up to the annual maximum limit)

b. rollover from an employer-sponsored retirement account

c. transfer from an existing IRA account

d. All of the Above

3. If you opt for an IRA LLC, which of the following activities will be necessary.

a. opening an LLC

b. opening a checking account in the name of the IRA account

c. Both a and b

d. Neither a or b

4. It is ok to deposit rental income from a property owned in your self-directed IRA into your personal checking account - especially if you plan to use those funds for property maintenance.

a. True

b. False

5. Once you have your self-directed IRA account open and funded, you can "set it and forget it," as the rules for these types of accounts rarely change.

a. True

b. False

NOTES

GLOSSARY OF TERMS

Cash-On-Cash-Return - A measure of the profitability of an income producing property, expressed as a percentage. To calculate cash-on-cash-return, divide the amount of cash received from the property in a given year by the amount originally invested.

Checkbook IRA - A type of IRA also referred to as a self-directed IRA LLC, a real estate IRA or solo 401(k). In every instance of the terms being used, a bank account is established for the legal structure. Hence, the term Checkbook IRA.

Closing - The event that transfers ownership of a property from the seller to the buyer in accordance with the contract of sale. Generally, the buyer, seller, lender (if applicable), and their agents are present at the closing.

Collateral - Property pledged as security for a debt.

Custodian - Banks and other institutions approved by the IRS to hold retirement funds. And, like all other banking type institutions, they are compensated through an asset and transaction fee structure. By law, every qualified retirement plan must have a custodian or trustee approved by the IRS in accordance with the requirements of IRC Section 408.

Deed of Trust - A legal document, used in some states instead of a mortgage, that pledges property to secure the repayment of a loan. A deed of trust vests the title of the property in one or several trustees to secure the loan's payment.

Disqualified Person - For purposes of the IRA prohibited transaction rules, a disqualified person is any of the following: 1) a fiduciary of the plan; 2) a person providing services to the plan; 3) an employer, any of whose employees are covered by the plan; 4) an employee organization, any of whose members are covered by the plan; 5) any direct or indirect owner of 50% or more of any of the following: a) the combined voting power of all classes of stock entitled to

NOTES

vote, or the total value of shares of all classes of stock of a corporation that is an employer or employee organization described in 3 or 4 above, b) the capital interest or profits interest of a partnership that is an employer or employee organization described in 3 or 4 above; c) the beneficial interest of a trust or unincorporated enterprise that is an employer or an employee organization described in 3 or 4 above; 6) a member of the family of any individual described in 1, 2, 3, or 4 above (i.e., the individual's spouse, ancestor, lineal descendant, or any spouse of a lineal descendant); 7) a corporation, partnership, trust, or estate of which (or in which) any direct or indirect owner described in 1 through 5 above holds 50% or more in any of the following: a) the combined voting power of all classes of stock entitled to vote or the total value of all shares of all classes of stock of a corporation, b) the capital interest or profits of a partnership, c) the beneficial interest of a trust or estate; 8) an officer, director (or any individual having powers or responsibilities similar to those of officers or directors), a 10% or more shareholder, or highly compensated employee (earning 10% or more of the yearly wages of an employer) of a person described in 3, 4, 5, or 7; 9) a 10% or more (in capital or profits) partner or joint venture of a person described in 3, 4, 5, or 7; 10) any disqualified person, as described in 1 through 9 above, who is a disqualified person with respect to any plan to which a multiemployer plan trust is permitted to make payments under section 4223 of ERISA.

Equity - The interest or value that an owner has in property over and above any debt incurred.

Escrow Agent - An individual or company that receives escrow for deposit or delivery. In some states, the title insurance company most often serves as the escrow agent. In other states, an attorney typically holds the escrow.

Foreclosure - The legal process whereby a borrower who has failed to make mortgage payments is deprived of his or her interest in the mortgaged property. This usually involves forced sale of the property, the proceeds of which are used to pay the mortgage debt.

Limited Liability Company (LLC) - LLCs are a creation of state law. An LLC is somewhat of a hybrid entity in that it can be structured to resemble a corporation for owner liability purposes and a partnership for federal income tax purposes. An LLC offers the limited liability benefit of a corporation and the single level of taxation of a partnership.

NOTES

Loan-To-Value Ratio (LTV) - The relationship between the amount of money borrowed on a property and the value of the property. A loan with a lower loan-to-value ratio – which is a loan in which the amount borrowed is smaller relative to the property's value – involves less risk than a loan with a higher ratio, because the borrower has more equity in the property, and therefore more reason to repay the loan.

Mortgage - A legal document that pledges property to a lender as security for payment of a debt. The mortgage is used in only some states. In other states, a deed of trust or land sale contract is used instead.

Non-Recourse IRA Mortgage - The only type of loan allowed for a self-directed IRA. A nonrecourse loan is a secured loan, or debt, that is secured by a pledge of collateral, typically real property, but for which the borrower is not personally liable.

Note - An unrecorded legal document that obligates the borrower to repay a debt, such as a mortgage loan, at a stated interest rate during a specified period of time. This is also called a promissory note.

Prohibited Transaction - An improperly executed transaction that involves an IRA, Solo 401(k) or other tax-favored retirement plan that will result in penalties, taxes, or possibly even the loss of the plan's tax-deferred or tax-free status. A prohibited transaction is a transaction between a plan and a disqualified person that is prohibited by law. Prohibited transactions generally include the following transactions: a) a transfer of plan income or assets to, or use of them by or for the benefit of, a disqualified person, b) any act of a fiduciary by which plan income or assets are used for his or her own interest, c) the receipt of consideration by a fiduciary for his or her own account from any party dealing with the plan in a transaction that involves plan income or assets, d) the sale, exchange, or lease of property between a plan and a disqualified person, e) lending money or extending credit between a plan and a disqualified person, and f) furnishing goods, services, or facilities between a plan and a disqualified person.

Qualified Retirement Plan - A plan that meets the requirements of Internal Revenue Code Section 401(a) and the Employee Retirement Income Security Act of 1974 (ERISA), thus making it eligible for favorable tax treatment. Contributions and earnings enjoy tax-deferred investment growth.

NOTES

Real Estate IRA - Also called a Checkbook IRA, self-directed IRA, or IRA LLC. A real estate IRA is generally used to make real estate related investments to hold within a retirement investment portfolio.

Rollover - A term that typically refers to funds being moved from an ex-employer's retirement plan to another qualified plan because of change of employment, lay-off, or retirement. A rollover maintains the tax-deferred status of the account.

Roth IRA - A type of IRA funded with nondeductible contributions or amounts converted, and taxed, from another type of IRA. Qualified distributions from a Roth IRA are free from income tax. Contributions or conversions to a Roth IRA may be made only in years in which the individual's modified adjusted grow income is within specified limits.

Self-Directed IRA - Self-directed IRAs have been legal since their inception in 1974, when Congress passed the Employee Retirement Income Security Act (ERISA), making IRA, 401(k) and other retirement plans possible. With a self-directed IRA, the IRA holder keeps most of this power. He or she directs the investment rather than a broker.

Tax Lien - A legal claim placed on a property due to failure to pay property taxes.

Tax Sale - The sale of a property due to nonpayment of taxes.

Tax Sale Certificate - A certificate sold by a county or other taxing unit when the owner of real estate is delinquent in paying his property taxes to the point that foreclosure is imminent. A tax sale certificate gives the buyer the right to collect lawful interest; to give proper notices to foreclose; to obtain possession of the property by court eviction; and to reside in, lease, rent, or dispose of the property at will.

Traditional IRA - An Individual Retirement Arrangement (IRA) which is not a Roth IRA, SEP IRA, or SIMPLE IRA.

NOTES

Transfer - The movement of a retirement account assets from one custodian directly to another. An asset transfer is not a distribution and is not taxable or reportable to the IRS. There are no limits as to the number or frequency of IRA transfers.

Unrelated Business Taxable Income (UBTI) -Income taxable to an IRA or other tax-exempt entity because it is “unrelated” to the IRA’s tax-exempt purpose. Typical examples are income from a manufacturing, sale or service business operated by and IRA or partnership or LLC in which an IRA is a member, as well as unrelated debt-financed income. The tax on this income is called unrelated business income tax, or UBIT. There are some important exceptions from UBTI. Those exclusions relate to the central importance of investment in real estate, such as dividends, interest, annuities, royalties, most rentals from real estate, and gains or losses from the sale of real estate. However, rental income generated from real estate that is debt financed loses the exclusion, and that portion of the income becomes subject to UBTI. Thus, if the IRA borrows money to finance the purchase of real estate, the portion of the rental income attributable to that debt will be taxable as UBTI.

Unrelated Business Income Tax (UBIT) - A yearly tax levied on the income produced by IRA-purchased property that has related debt. Although originally created to affect charitable organizations, the UBIT is also applied to IRA investments.

ACPARE… because no one else will give you the financial future you deserve.

Formed with the explicit purpose of changing the face of real estate investment, ACPARE seeks to provide each member with the education and leverage to break free of reliance of banks and lending institutions.

Times have changed. ACPARE is changing commercial real estate investment in response.

With over four decades of world-class experience in capital formation, ACPARE offers members nothing short of the most effective means and methods to build real wealth in any economic climate.

As a member, you'll enjoy unlimited access to closely-guarded Wall Street secrets of capital formation, placement, asset arbitrage, and more…

- Comprehensive trainings and certification programs designed by qualified experts, complete with hands-on guidance and mentoring

- Unrestricted access to our deal vault so you can see every aspect of some of the most lucrative commercial investment deals ever struck

- Members-only training videos and consultation demonstrating essential strategies, common mistakes, and exactly what it takes to turn an opportunity into a legacy

And that's just the beginning.

When the financial lending system finally lashes out in your direction, how will YOU save your business?

Stop playing games you're not meant to win.

Wall Street makes money no matter what happens in the market. So can you.

ACPARE. A real solution for you… and your heirs.

ACPARE

www.ACPARE.org