Top 10 Facts About Self-Directed IRAs

Self-directed plans give you

the freedom to choose your own investments as well as control of your own retirement funds.

Alternative investments allowed in self-directed plans include:

real estate, notes and mortgages, crowdfunding opportunities, single-member LLCs, hedge funds, precious metals, energy options, and much more.

Income flows directly into the IRA on a tax-sheltered basis.

Prohibited transactions (personally using vacation rental property)

and transactions with disqualified persons (IRA owner and spouse; lineal descendants and ascendants of IRA owner and spouse) can cause penalties, taxation, and/or disqualification of your IRA. See IRC Section 4975 for explicit details.

IRAs can borrow money in the form of non-recourse loans.

Most banks require 35% down and a minimum loan amount of $100,000. A portion of gains relevant to the leverage may be subject to Unrelated Business Income Tax (UBIT) and/or Unrelated Debt Financed Income (UDFI). Individual(k) plans are not subject to the taxes of leveraged assets.

Types of accounts that can be self-directed:

Traditional, Roth, SEP, and SIMPLE IRAs, and individual 401(k) plans. Health and education savings accounts can be self-directed, as well.

The IRA prohibits these investments within IRAs:

life insurance and collectibles (works of art, antiques, jewelry).

All expenses incurred for the IRA must be paid with funds from the IRA.

IRAs can partner with others to pool investment funds.

For example, Sam Jordan's IRA can own 60% of a condo and Susan Smith can personally own 40%. Income and expenses are split at an ownership ratio of 60/40. Sam's IRA gains tax-sheltered income; Susan's personal investment gains are taxed at a rate appropriate for her income bracket.

Qualified plans from previous employers, such as 401(k), 457(b) and 403(b) plans, can be rolled into self-directed IRAs.

Individuals can have multiple custodians and in these cases partial transfers are allowed.

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