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Truly Tax Free Income

The Roth IRA offers a unique opportunity for the smart investor to grow his or her portfolio and literally pay no income tax on the growth or income. There is really nothing like the Roth IRA in the Internal Revenue Code.

A Roth IRA is a type of retirement account, and the main benefit is all distributions from a Roth IRA are tax free. If you are savvy enough to grow your retirement portfolio, at age 59.5 you can distribute that money 100% tax free. The trade off for these tax free distributions is that there is no deduction on current year income tax return for a Roth IRA contribution.

In order for you to take money from the Roth IRA tax free and penalty free, it has to be considered a "qualified distribution." If it's deemed qualified, you avoid taxes and the 10% early withdrawal penalty. A qualified distribution is any payment or distribution from your Roth IRA that is made after the 5-year period beginning with the first taxable year for which a contribution was made to a Roth IRA set up for your benefit, and the distribution is:

Made on or after the date you reach age 59½, made because you are 1) disabled, made to a beneficiary or to your estate after your death, or 2) one that meets the requirements listed under first home exemptions.

Most rules that apply to traditional IRAs apply to Roth IRAs. The due date for contributions is also April 15th of the following year. Remember retirement accounts are not saving ac-

Differences of the Roth IRA vs a Traditional IRA?

1. There is no age limit on Contributions. As long as you have earned income you can continue to add to your account.
2. Your beneficiaries inherit a Roth IRA tax free as well.
3. There is no required minimum distributions on a Roth IRA. This can be a great estate planning tool.
4. With a Roth IRA the IRA owner is allowed to pull out their contributions tax free at any time.

counts. They are meant for long term investing with the intention of not removing the funds until retirement.

WHY ROTH IRA? The benefit of any retirement account is that tax free growth occurs inside the account. Every time you sell an asset for a gain within the account, there is no tax on the sale. This allows the investor to keep more money for their next investment. The Roth IRA is a vehicle that allows smart investors the control they need in today's diverse environment. But the key ingredient of the Roth IRA is the 100% tax free distributions.

HOW TO GET MONIES IN TO A ROTH IRA?

Typically there are two ways to get money into a Roth IRA: annual contributions up to the current limit and conversions from a Traditional IRA. Starting in 2010, all taxpayers are allowed to convert their traditional IRA to a Roth IRA. The consequences of converting is that you must pay income tax (no penalties) on the converted amount. It is wise in a year of conversion to carefully calculate all tax consequences and financial moves to minimize gross taxes.

One nice feature about the Roth IRAs is that you can change your mind on a traditional to Roth conversion. If you decide before you file your taxes that a conversion to a Roth was not a good financial move for you., you are allowed to do a "recharacterization," which means you move the money back to the traditional IRA. Taxes will have be paid on any gains that occurred while the money was invested in the Roth. If a recharacterization is performed, the original 1099 will be netted and no tax will be due. The recharacterization has to be done before your individual tax return is filed. Monies can also be rolled over and converted to a Roth IRA directly from a qualified plan that includes 401(k), 403(b) or 457 plans.

WHAT TYPE OF INVESTMENTS CAN I BUY IN A ROTH IRA?

Stocks and bonds are the most typical investments but investment opportunities are almost limitless. Other investment opportunities include purchasing real estate, private notes, LLC, private company stocks, futures/forex, precious metals and more.

F.A.Q. about Roth IRAs

How does a Roth IRA work?

There are two major differences between a Roth IRA and a Traditional IRA. First, you do not get a tax deduction for your contribution. That means you are using after tax dollars. Second, the distributions from a Roth IRA assuming the IRA owner is over 59.5 years old are **100% tax free.**

What is the Contribution Limit for a Roth IRA?

The contribution limit for 2011 is \$5,000 & additional catch up contribution of \$1,000 if over age 50.

Who can Contribute to a Roth IRA?

1. You must have compensation or earned income (W-2 or Self Employment Income)
2. Your modified AGI must be less than:
 - ⇒ \$177,000 if married filing joint
 - ⇒ \$120,000 if filing Single or Head of Household
 - ⇒ Everyone can make a Traditional IRA and then convert to a Roth IRA

Are Roth IRAs subject to penalties?

Yes, if you distribute before the age of 59.5 you will be subject to income tax and the 10% early distribution penalty.

DID YOU KNOW? *The Federal Income Code as we know it was adopted in 1913 with the ratification of the 16th Amendment. The first income tax was adopted by Congress that same year, levying a 1% tax on net personal incomes above \$3,000, with a 6% surtax on incomes above \$500,000.*

**"If you want others to be happy, practice compassion. If you want to be happy, practice compassion."
-Dalai Lama**

Dave Owens, CPA, CES

Tax Free Strategies – Opportunities for the Savvy Investor

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Self-Directed Retirement Accounts

A self-directed IRA allows you to invest in both "traditional" investments such as stocks, bonds, and mutual funds, as well as "non-traditional" investments, like real estate, mortgages/deeds of trust, private placements, tax liens, and other private placements and limited partnerships. A self-directed IRA enables you to use your investment knowledge and expertise to manage your own investments. It is a common misconception that you can only hold CD's, stocks, bonds, and mutual funds in your IRA. This is simply not true. A self-directed IRA quite simply is an IRA account that allows you to directly manage and choose which investments to purchase.

There are so many options to consider with a self-directed IRA; listed below are the most popular investments:

- Real Estate
 - ⇒Raw land
 - ⇒Rentals (Single Family/Duplex/Triplex)
 - ⇒Foreclosures
 - ⇒Short Sales
 - ⇒Condominiums/Commercial
- Notes/Mortgages
- Private Stocks
- Gold and other precious metals
- Private LLCs

- Structured Settlements
- Tax Liens/Certificates
- CDs/Stocks & Bonds
- Commodities/Futures/Forex
- & More

Why invest with your IRA Dollars—The main benefit of IRA investing vs After Tax Investing is the opportunity for tax free gains inside your account. By not having to pay the taxes on the sale of assets, you can keep more money for yourself to grow your nest egg and build wealth

How to set up a Self-Directed IRA?

The first step to get started in Self-Direction is finding the right IRA Administrator. Entrust is one of the top IRA Administrators in the United States. Entrust focuses on helping IRA investors take control and purchase the assets they want. Entrust Freedom can be reached at 239-333-1031 or go to www.entrustfreedom.com.

Once you have identified your administrator, you will need to open an account and transfer funds from an existing IRA or make a contribution. Now that the account is set up, you will direct your administrator on what type of non-traditional asset you would like to purchase. ***Self Direction is easy, so why not take control today?***

REAL ESTATE IRAS

If you've got an urge to sock away something in your IRA besides stocks, bonds and mutual funds, you may want to consider real estate. Raw land, houses, condos, commercial properties and even mortgage notes -- you can use an IRA to broaden your portfolio. A real estate IRA can be a great investment and offer a tremendous opportunity to investors who want to control and grow their IRA. Now may be the time to take advantage of the record low prices in the real estate market and use your IRA to get started investing today.

FREE eBook ON REAL ESTATE IRAs

If you are looking to get started in Real Estate IRAs, look no further than the eBook *Understanding Real Estate IRAs* written by Dave Owens, CPA. The free download of this book can be found at www.daveowens.com. The book is a hands-on guide to the ins and out of real estate IRA investing.

1031 EXCHANGES—WHAT IS A "QUALIFIED INTERMEDIARY?"

In a 1031 exchange, an investor must do more than sell real estate and reinvest the proceeds. To qualify for the favorable tax treatment, the investor can't touch the proceeds from the sale. This is where a "qualified intermediary" or man-in-the-middle comes in. The investor hires an intermediary to handle the money in the 1031 exchange account until the investor is ready to close on a new property, which consummates the 1031 exchange. The QI's role also includes facilitating the exchange using an exchange agreement, which means the QI becomes a party to the transaction. Based on the above description of the "qualified intermediary's" role, you can appreciate why it is important to choose an intermediary carefully. Choose an experienced Qualified Intermediary.

- How many years has your Qualified Intermediary been in business?
- How many exchanges have they performed
- Is the Qualified Intermediary Insured?
- Where are the proceeds kept during the holding period?

1031 Tax Free Strategies has been performing 1031 Exchanges since 1997. Trust an experienced Qualified Intermediary to help ensure your exchange is handled with the highest degree of professionalism. For more info go to www.1031company.com or call 239-333-1031