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FREQUENTLY ASKED QUESTIONS: PURCHASING AN ENTITY WITH A SELF- DIRECTED IRA

Q. Can I use my IRA to invest in a local community bank or other privately held businesses?

Yes, a retirement plan can invest in all types of privately held entities including C-Corps, LLCs, LPs and more. To learn more, contact your local Entrust office.

Q. When using my IRA to invest in a private placement, how is the ownership titled?

Like all assets held within a retirement plan, the offering will be vested in the name of the your IRA (custodian/administrator for the benefit of Your Name, IRA#). This way, any income that is generated will be returned to your retirement account tax-deferred or tax-free.

Q. Can my IRA invest in the LLC that I currently use to hold investment real estate?

If you or any disqualified persons currently own 50% or more of an entity, you are prohibited from buying into the entity with your retirement account. Yet, when establishing a new entity, both your personal funds and your IRA can invest in the initial capitalization.

BUYER BEWARE—As with all investments, due diligence is of the utmost important. As we have all seen with Madoff and other Ponzi schemes, investments can be very complicated and promoters can be very persuasive. Please be sure to research the promoters and make as many calls you feel necessary and most importantly, ask for professional help in evaluating the investment.

THE IRS ALLOWS RETIREMENT PLANS TO HOLD SHARES OF A PRIVATELY-HELD COMPANY. IMPORTANT POINTS ON INVESTING IN PRIVATE PLACEMENTS OR PRIVATE EQUITIES

Your self-directed IRA can invest in all types of private placements, including limited partnerships, limited liability companies, limited liability partnership, C-corporations, private stock, land trusts and more. If you are considering a self-directed investment into a private entity, it's important to consult with an experienced attorney or tax practitioner. You'll want to make sure that you enable your IRA to invest.

STEPS TO GET STARTED INVESTING YOUR IRA IN PRIVATE PLACEMENTS.

1. Open your self-directed IRA and transfer funds from your existing custodian
2. Identify the private placement or stock
3. Documents typically involved
 - ⇒ Offering memorandum
 - ⇒ Subscription agreement
 - ⇒ Sophisticated investor form
4. Review all documents with your tax and legal counsel
5. Once agreement as to suitability has been determined, the subscription agreement with a buy direction will be sent to IRA administrator
6. Subscription agreements must be made in the name of the IRA administrator for the client's benefit to be signed by the IRA administrator on behalf of the client
7. All income from the investment will be made payable to the IRA.

- Your IRA cannot buy into an investment that you already own
- If you own the company, or are an officer or director, certain restrictions can apply.
- You will need a self-directed administrator to get started in a private placement
- As the IRA owner, you must read and approve all documents before final closing
- All income and expenses for the investment must flow to and from the IRA
- UBIT may apply if there debt financing in the private placement

WHAT IS A SOPHISTICATED INVESTOR?

Many times, to purchase into a private placement, you must be a sophisticated investor. A sophisticated investor is a type of investor who is deemed to have sufficient investing experience and knowledge to weigh the risks and merits of an investment opportunity. Sophisticated investors may have to prove their net worth prior to being eligible to purchase certain security types. Investors will often have their personal accountants send this proof to the brokerage firm. Certain assumptions are made about sophisticated investors: that they can hold their investments indefinitely (the funds do not need to be liquidated for cash needs), and they can assume a total loss of investment principal without causing severe damage to their overall net worth.

UNIQUE OPPORTUNITIES IN PRIVATE PLACEMENTS

Investing in a private placement can offer many different types of investment alternatives. Below is a list of different types of investments have been offered through a private placement.

- * Real Estate or Commercial Office Building (investment range \$25,000 to \$500,000)
- * Small Bank Stock (must be a C corporation and investment range \$5,000 and up)
- * Gold Investment Fund (investment range \$5,000 to \$100,000)
- * Oil and Gas Investment (investment range \$5,000 to \$100,000).
- * Hotels (investment range \$25,000 to \$500,000)
- * Managed Futures Account (investment range \$25,000 to \$100,000)
- * Commodity Pool (investment range \$10,000 and up)
- * Land Trust (investment range \$2,000 and up)

The human race has one really effective weapon, and that is laughter.
Mark Twain

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 Estates
 - ⇒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 a 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 can be reached on the web at www.1031-ira.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?***

Have a great day!

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