SELF-DIRECTED IRA
RULES

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Opening a Self-Directed IRA (SDIRA) allows you to have complete control over your retirement account. The flip side of that freedom is that you are solely responsible for whatever occurs within your IRA. While the account must be administrated by a custodian or administrator, knowing and abiding by the laws that govern IRAs is up to you.

Here are the essential rules you need to follow to keep your IRA in good standing.

RULE #1

Avoid Prohibited Transactions

Knowing what transactions are legally prohibited is vital to Self-Directing your IRA.

IRS Publication 590 defines a prohibited transaction as any improper use of your IRA by you, your beneficiary, or any disqualified person.

Types of **prohibited transactions**:

- Sale, exchange or leasing of a property between an IRA and a disqualified person. *Example: You sell a home your IRA owns to your daughter.*
- Extension of credit or cash loan between an IRA and a disqualified person. *Example: Using IRA funds to invest in your spouse's bakery.*
- Furnishing goods, services, or facilities between an IRA and a disqualified person. *Example: Hiring your son-in-law to paint the walls of a condo owned by your IRA.*
- Transfer of IRA income or assets to, or use by or for the benefit of, a disqualified person. *Example: Renting a property owned by your IRA to your child.*

As an account holder, you'll want to avoid any self-dealing transactions. If a transaction appears to benefit you beyond the scope of your retirement account, you may want to consult a CPA or tax advisor. Violating prohibited transaction rules can jeopardize your IRA's tax-free or tax-deferred status. Penalties may also apply.

You may also want to take advantage of our **Prohibited Transaction Checklist** to assess potential transactions.

RULE #2

Know Your Disqualified Persons

Transacting with a disqualified person can cost your IRA its tax advantaged status and incur penalties. Disqualified persons include:

- You
- Your spouse
- Your lineal descendants, their spouses, and your lineal ascendants
- A beneficiary of the IRA
- Investment advisers and managers
- Any corporation, partnership or estate that you (or any disqualified person) have at least a 50% stake in
- Your trustee, custodian, or anyone providing services to the IRA

RULE #3

What You Can't Invest In

There are three types of investments that you are not allowed to invest in with your Self-Directed IRA. The three asset classes not permitted in your IRA are:

- Insurance
- Collectibles (some exceptions for coins and metals)
- S Corporations

If you invest in one of these asset classes, the IRA funds you invest will be considered distributed to you as of January 1 of the year you made the investment. You may also be subject to a 10% early distribution penalty if you are under the age of 59½.

Understanding the rules that govern your SDIRA may be your most important responsibility as an account holder, but it's not the only one. Regardless of what you invest in, conducting due diligence on potential investments is crucial. Read our **Due Diligence Report** to learn more.