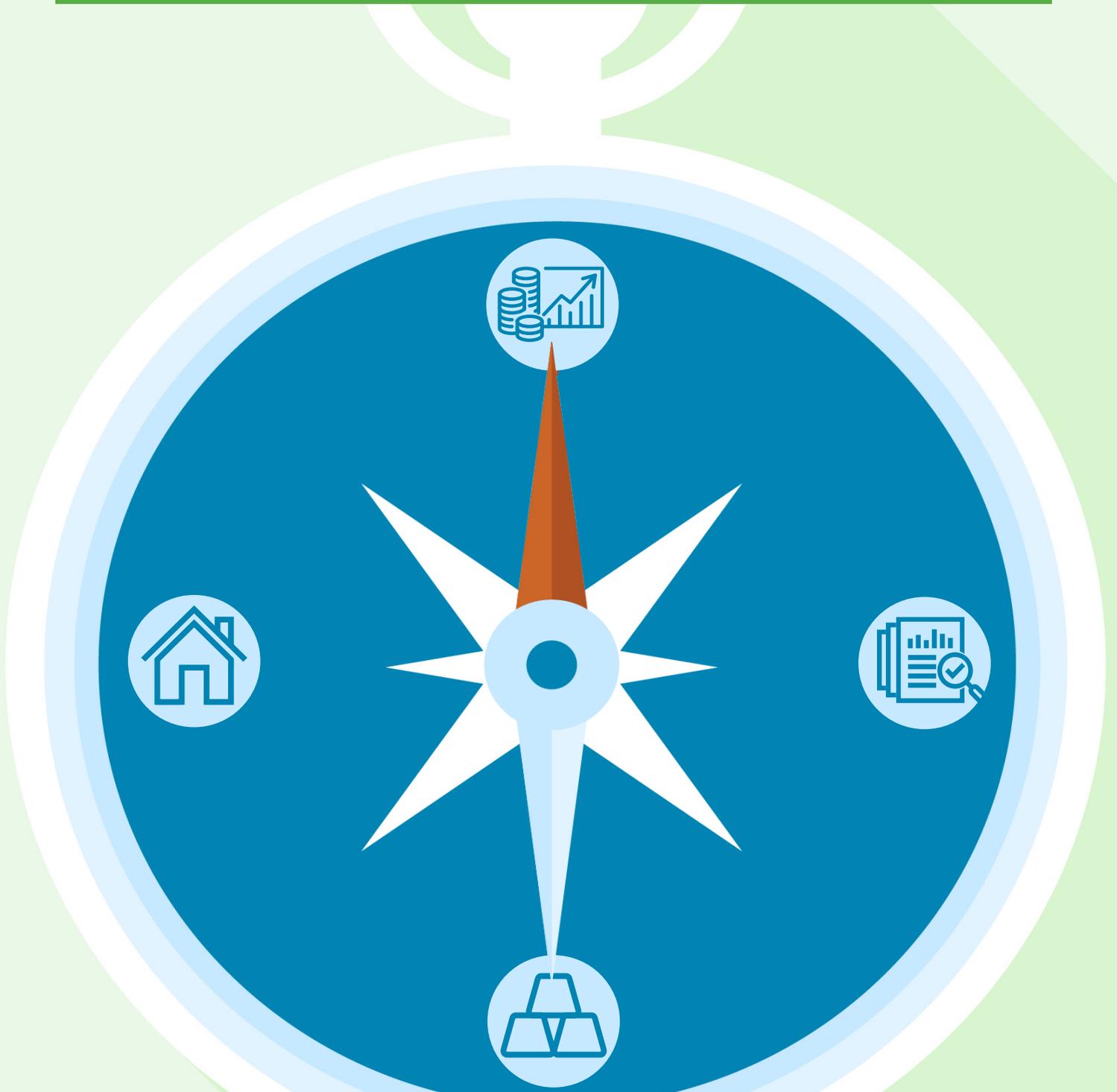


# Self-Directed IRAs: The Basics Guide





## What is a Self-Directed IRA?

### Contents

- 3 What Can an SDIRA Invest In?
- 4 Self-Directed IRA: Benefits and Considerations
- 5 Key IRS Rules to Know
- 6 Traditional vs Roth SDIRA
- 7 How to Open an SDIRA
- 8 3 SDIRA Funding Methods
- 9 Frequently Asked Questions
- 10 Take Control of Your Retirement Portfolio at The Entrust Group

A [self-directed IRA \(SDIRA\)](#) is simply an IRA. It offers all the same tax benefits of any other IRA and operates under identical rules and regulations.

What sets it apart? The level of control and flexibility over your retirement portfolio.

Most IRAs limit your investment choices to publicly traded securities like stocks, bonds, and mutual funds. To a large extent, the performance of the account is determined by the whims of the market.

On the other hand, an SDIRA allows you to unlock your tax-advantaged funds to invest in [alternative assets](#) like real estate, private equity, precious metals, and more.



**What sets a self-directed IRA apart?**  
The level of control and flexibility over your retirement portfolio.

# What Can Your SDIRA Invest In?

An SDIRA can hold any asset the IRS allows, including:

## Real Estate

One of the most common investments in SDIRAs, real estate offers potential for capital appreciation, rental income, and diversification from market volatility. SDIRA holders can invest in residential, commercial, and land developments.

## Precious Metals

SDIRAs can invest in certain precious metals, including gold, silver, platinum, and palladium. These investments must meet specific [fineness standards](#) and be held in a precious metal depository to qualify.

## Private Equity

Investors can use their SDIRA to invest in private businesses, from startups to more established companies. This option can offer significant returns if the business succeeds, but it also involves higher risk and liquidity constraints.

## Peer-to-Peer Lending

SDIRA holders can lend money to individuals or small businesses online through platforms that match lenders with borrowers. Returns are generated from the interest paid on these loans, offering a potential stream of income.

## Cryptocurrencies

You can also invest in cryptocurrencies, providing exposure to digital assets that can diversify a portfolio. However, the volatile nature of these investments requires careful risk assessment.



## What Your SDIRA Cannot Invest In

Certain investments are prohibited in an SDIRA to avoid conflicts of interest and ensure benefits accrue to the retirement account, including:

- Life Insurance
- S Corporations
- Collectibles
  - Artwork, antiques, gems, stamps, coins (except for certain bullion coins), and alcoholic beverages, [among others](#).

# Self-Directed IRAs: Benefits and Considerations

## Benefits of an SDIRA

SDIRAs offer several significant benefits for investors looking to diversify their retirement portfolios.

### Potential for Higher Returns

Because SDIRAs can invest in alternative and potentially higher-risk, higher-reward investments, they offer the possibility of greater returns compared to other IRAs.

### Tax Advantages

Like all IRAs, SDIRAs offer the potential for tax-deferred or tax-free growth. If you already have experience investing in alternative assets, investing through an IRA could lead to a substantial improvement in take-home earnings.

### True Portfolio Diversification

There is no free lunch in investing, except diversification. SDIRAs allow for a wider range of investment possibilities, such as real estate, private placements, precious metals, private lending, and even cryptocurrencies. This diversification can help reduce risk and increase potential returns.

### Leverage Your Expertise

SDIRAs allow you to invest in industries or assets you know and understand, rather than relying on the broader stock market or fund managers. This can be particularly appealing to those with expertise in niche or local markets, such as real estate investors.

## Considerations of an SDIRA

SDIRAs offer greater investment flexibility compared to traditional IRAs, but they also come with their own set of challenges and risks.

### Illiquidity

Investments like real estate or private equity are less liquid than stocks and bonds, making it more difficult to quickly access funds or distribute assets when needed.

### Due Diligence

The responsibility for due diligence falls entirely on the IRA holder. This means you must vet and evaluate the potential investments thoroughly to avoid scams, underperforming assets, and legal issues.

### Complexity

Investing through an SDIRA can be more complex due to the broader range of permissible investments, such as real estate, promissory notes, and precious metals. To maintain the tax-advantaged status of their account, SDIRA holders must have a firm understanding of the rules and regulations involved.

### Higher Fees

Self-directed plans often involve unique transactions, such as investments in real estate and private company stock. Processing these transactions requires more time, expertise, and manual processing than publicly traded securities. Consequently, SDIRA provider fees are often higher due to the increased labor and expertise involved.

# IRS Rules to Be Aware of Before Opening an SDIRA

Opening an SDIRA offers many investment opportunities, but it's crucial to understand the IRS rules to ensure compliance and avoid penalties.

## Prohibited Transactions

The IRS [prohibits certain transactions](#) to prevent conflicts of interest, including:

- **Self-Dealing:** You cannot buy or sell property between your SDIRA and yourself, your family members (ascendants and descendants), or businesses you control.
- **Personal Use:** Neither you nor any [disqualified persons](#) can use the property owned by your SDIRA.
- **Services:** You cannot personally perform services, such as repairs or maintenance, on the properties owned by your SDIRA.

## Fair Market Valuation (FMV) Reporting

If the [fair market value \(FMV\)](#) of an asset in your SDIRA has changed during the year, you must report the new FMV of that asset by January 31.

## Required Minimum Distributions (RMDs)

Starting at age 73, you must begin taking [required minimum distributions \(RMDs\)](#) from your tax-deferred accounts, including a traditional SDIRA.

## Income and Expenses

All income generated by SDIRA investments (e.g., rental income) must be deposited directly into the SDIRA. Similarly, all expenses related to the investments (e.g., maintenance, property taxes) must be paid from the SDIRA.

At The Entrust Group, you gain access to our exclusive [myDirection Card](#). Pay for your IRA expenses with a single swipe, saving time, money, and streamlining your transactions.

## Unrelated Business Income Tax

Certain investments in an IRA may be subject to [unrelated business income tax \(UBIT\)](#). This tax helps maintain a competitive market and ensures that tax-exempt entities (like IRAs) are used for their primary purpose – making investments to provide income in retirement.

There are two main types of IRA investments that will incur UBIT:

1. Leveraged assets, such as an investment property financed with a [non-recourse loan](#).
2. Assets that generate regular business income unrelated to the primary purpose of the IRA, such as a restaurant or gas station.

# Traditional vs Roth SDIRA

## Tax now or tax later?

When deciding between a [traditional](#) or [Roth self-directed IRA](#), several factors come into play. Here's a breakdown of the main differences to help you make an informed decision:

Feature	Traditional SDIRA	Roth SDIRA
Contributions	Tax-deductible (subject to income limits)	Made with after-tax dollars
Income Limits	Can make non-deductible contributions at any income	Cannot make direct contributions past income limits
Taxation on Distributions	Taxed as ordinary income	Tax-free, if qualified
Required Minimum Distributions (RMDs)	Required starting at age 73	No RMDs during the account holder's lifetime
Early Withdrawal Penalty	10% penalty if under 59½, plus taxes	10% penalty if under 59½ on earnings, contributions can be withdrawn anytime tax-free and penalty-free
Overall Tax Liability	May lead to a lower lifetime tax bill if your tax rates fall in the future.	May lead to a lower lifetime tax bill if your tax rates rise in the future.



## Tax Diversification Strategy

Many IRA holders opt to split their contributions between traditional and Roth SDIRAs. This strategy is known as tax diversification — whether tax rates rise or fall in the future, the impact on take-home earnings from the accounts will be minimal.

# How to Set Up a Self-Directed IRA



Opening an SDIRA can be done in four simple steps:

## 1. Research and Choose a Provider

Select an SDIRA provider you can rely on, like [The Entrust Group](#). We have over four decades of experience, numerous team members with the Certified IRA Services Professional (CISP) designation, and the industry-leading [Entrust Client Portal](#).

## 2. Open an Account Online

All you need is 10 minutes of your time and a copy of a government-issued ID.

## 3. Fund the Account

Complete a [transfer, rollover, or contribution](#) to move funds into the new account.

## 4. Start Investing

Take control of your retirement portfolio by investing in real estate, precious metals, promissory notes, and [much more](#).



Get Started Today

Open an Account

Talk to an SDIRA Expert

## 3 Self-Directed IRA Funding Methods

Once you've opened your account, it's time to fund it.

### Transfer

- Move funds directly from an IRA (e.g., traditional, Roth, SEP, SIMPLE) at one institution to the same type of IRA at The Entrust Group.
- **For Example:** Traditional IRA to traditional SDIRA, Roth IRA to Roth SDIRA, etc.
- Maintains tax status, avoids taxes and penalties.

### Rollover

There are two types of IRA rollovers to choose from:

#### Direct Rollover

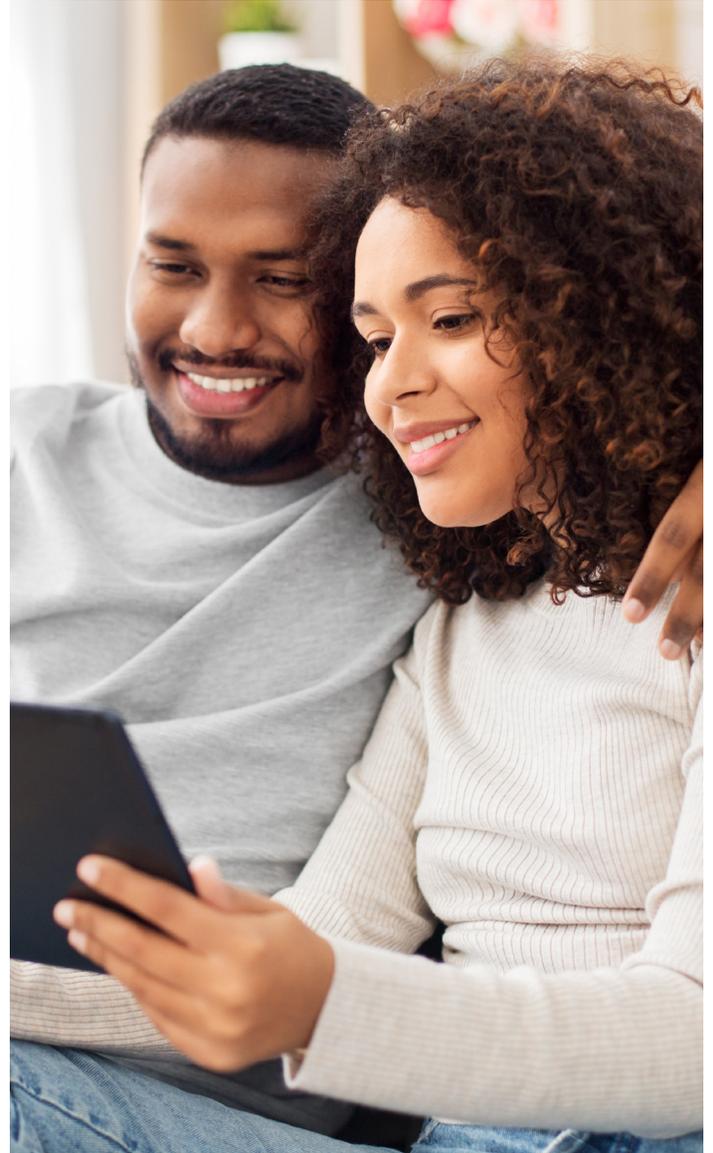
- Moves funds directly from one type of retirement account to another.
- **For Example:** Traditional 401(k) to traditional SDIRA, Roth 403(b) to Roth SDIRA, etc.
- The IRA holder never takes possession of the funds, avoiding mandatory withholding and potential penalties.

#### Indirect Rollover

- IRA holder takes a distribution from a retirement plan and deposits it into an SDIRA within 60 days.
- **For Example:** IRA holder takes temporary distribution from traditional 401(k) and deposits into traditional SDIRA at Entrust within 60 days.
- Subject to 20% withholding; must complete rollover within 60 days to avoid taxes and penalties.

### Contributions

- Make annual contributions to traditional or Roth SDIRA up to the [IRS limits](#).
- Limit applies across all traditional and Roth SDIRAs.
- **For Example:** Let's say the IRS set the IRA contribution limit at \$8,000 for the year. If you contribute \$3,000 to a traditional SDIRA and \$5,000 to a Roth SDIRA, that meets your contribution limits for the year.



Fund your SDIRA with a transfer, rollover, or contribution.

# Frequently Asked Questions

Still have questions? Here are a few of the most common queries we get about SDIRAs:

## 1. What is an IRA LLC? Is that a checkbook control IRA?

Yes, an IRA LLC is often referred to as a checkbook control IRA.

This structure combines the benefits of a self-directed IRA with the flexibility and control of a limited liability company (LLC). In an IRA LLC, the self-directed IRA is the sole member of the LLC, and you, the IRA holder, act as the manager.

This setup provides checkbook control, allowing you to make investments quickly without waiting for a custodian to process each transaction.

## 2. Can I live in a property owned by my self-directed IRA?

No, you cannot live in a property owned by your SDIRA. IRS regulations consider you a disqualified person concerning your IRA.

Disqualified persons are prohibited from using or benefiting from assets owned by the IRA. The purpose of an IRA is to provide tax advantages for retirement savings, not personal benefit.

## 3. Why do I need a custodian to hold precious metals in my IRA?

The IRS requires that all IRA assets, including precious metals, be held by a qualified custodian. The custodian's role is to hold the investments on behalf of the IRA holder and ensure compliance with the rules set by the Internal Revenue Code.

## 4. Can I roll my 401(k) into an SDIRA?

Yes, if you have a 401(k) from a previous employer, you can roll the funds into an SDIRA.

To do this, [open an SDIRA](#), contact your 401(k) provider, initiate the rollover, and then invest the funds as you see fit.

However, if your 401(k) is with a current employer, you may not be able to move the funds. Check with your plan administrator to see if in-service withdrawals are allowed. If so, you may still be able to complete a rollover.



## Want to learn more?

Check out our [FAQs page](#) or talk to an SDIRA expert.

# Take Control of Your Retirement Portfolio at The Entrust Group

## The Entrust Advantage

For nearly as long as IRAs have existed, we've been empowering investors with access to alternative investments through SDIRAs. During that time, [we've learned a lot](#) about what you need to make the most of these accounts.

That's exactly why [opening an SDIRA](#) with Entrust offers several advantages you won't find with other providers.

**40+ Years of Service**

**\$5 Billion Assets Under Administration**

**24,000+ Individual Investors**

## Competitive Fee Schedule

Enjoy premium service [without paying a premium price](#).

## Industry-Leading Entrust Client Portal

Manage your portfolio anytime, anywhere. We designed the [Entrust Client Portal](#) to help you conduct transactions seamlessly, from funding to investing to everything in between. Don't take our word for it — Investopedia awarded us "The Best Online Portal" among SDIRA providers.



Have questions about SDIRAs or The Entrust Group? That's why we're here. [Schedule a call](#) with one of our SDIRA experts today.

Open Your SDIRA

Talk to an Expert



 555 12th St, Suite 900,  
Oakland, CA 94607

 800-392-9653

 [TEG@TheEntrustGroup.com](mailto:TEG@TheEntrustGroup.com)

 [www.TheEntrustGroup.com](http://www.TheEntrustGroup.com)

*The Entrust Group does not endorse, recommend or advise on any investment product or service. Rather, The Entrust Group provides the administration, information, and tools to make self-direction straightforward and compliant.*