

Tax-Free Growth With Roth IRA Investments





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All information and materials are for educational purposes only. All parties are encouraged to consult with their attorneys, accountants and financial advisors before entering into any type of investment.

Agenda




- 1 About Entrust
- 2 Characteristics of a Roth IRA
- 3 Roth IRA Funding Sources
- 4 Permitted and Prohibited Investments
- 5 Tips for Roth Reporting
- 6 Q&A Time

Meet Your Presenter

John Paul Ruiz

Director of Professional Development at The Entrust Group



-  29 Years of retirement education development
-  Educating investors and professionals on tax-preferred retirement accounts
-  CISP & QKA certified

About Entrust



|
\$4B

Assets Under
Administration



|
22k

Active
Accounts



|
40

Years of
Service



|
1

Point of
Contact

About Entrust



- Self-Directed IRA administrators
- Knowledgeable staff with CISP designations
- Nationwide offices
- In-person events and virtual webinars
- National Continuing Education program for other credentials
- Bi-annual IRA Academy

What is a Self-Directed IRA?



A retirement account in which the individual investor is in charge of making all investment decisions



Greater opportunity for asset diversification outside of traditional stocks, bonds, and mutual funds

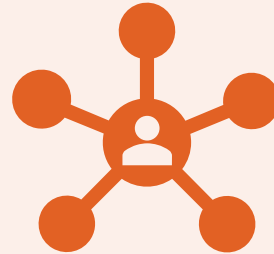


All securities and investments are held in a retirement account administered by a regulated custodian or trustee

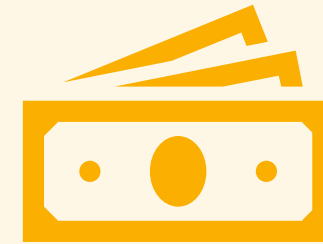
Benefits of Self-Direction



Take Control



Diversification



Tax Benefits



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Roth IRA Basics



Let's Take A Poll

Which feature of Roth IRAs interests you most?

A: The tax-deferred earnings

B: No aging out of contributions

C: No required minimum distributions at age 73

D: All of the above

Characteristics of the Roth IRA

- Individual retirement account, similar to Traditional IRA; However tax-deferred earnings that grow tax-deferred may later be tax free.
- Earnings are tax-free if the qualified distribution criteria are satisfied
 - 5 years plus death, disability, age 59 ½ or purchase of a primary residence (max \$10,000)
- Subject to IRS restrictions such as prohibited transactions
- IRA holder not subject to RMD upon attainment of age 73

Advantages of the Roth IRA

- Tax-free distributions after criteria are met
- No aging out; contribute as long as you have earned income and are within the income limits
- Non-Qualified distributions follow the ordering rules
 - Contributions-Conversions-Earnings
- Heirs inherit tax-free nature of account



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Roth IRA Funding Sources



Let's Take A Poll

A _____ is the process of moving funds from your Traditional IRA to your new Roth IRA

A: Direct Rollover

B: Transfer

C: Conversion

D: Contribution

Roth Funding Sources

- Contributions
- Transfers from another Roth accounts
- Conversions from non-Roth accounts

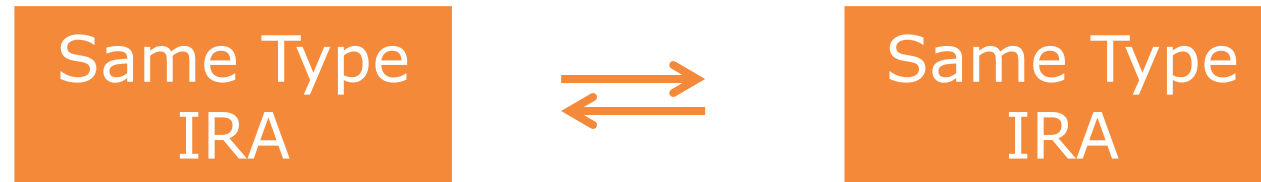
Roth IRA Contribution Limits

Contribution Categories		2023
Up to age 50		\$6,500
Catch-up contributions age 50+		\$1,000
Total contribution if over the age 50+		\$7,500

Roth IRA Contribution Limits MAGI Phase-Out Ranges

Participant Status	2023
Single individuals	\$138,000 - \$153,000
Married, filing a joint tax return	\$218,000 - \$228,000
Married, filing separate tax returns	\$0 - \$10,000

Transferring Between IRAs



Nontaxable, nonreportable movement of retirement assets between same type of plans.

Conversion Mechanics

Traditional IRA



<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-0119		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.	
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Gross distribution \$	2023	Form 1099-R	
PAYER'S TIN		2a Taxable amount \$	2b Taxable amount not determined <input type="checkbox"/>	Total distribution <input type="checkbox"/>	
RECIPIENT'S TIN		3 Capital gain (included in box 2a) \$	4 Federal income tax withheld \$	Copy 1 For State, City, or Local Tax Department	
RECIPIENT'S name		5 Employee contributions/ Designated Roth contributions or insurance premiums \$	6 Net unrealized appreciation in employer's securities \$	7 IRA <input type="checkbox"/> SEP <input type="checkbox"/> SIMPLE <input type="checkbox"/> Other <input type="checkbox"/>	
Street address (including apt. no.)		7 Distribution code(s)	8a Your percentage of total distribution %	8b Total employee contributions \$	
City or town, state or province, country, and ZIP or foreign postal code		9a	9b	10 Amount allocable to IRR within 5 years \$	
Account number (see instructions)		11 1st year of design Roth contrib. <input type="checkbox"/>	12 FATCA filing requirement <input type="checkbox"/>	13 Date of payment \$	14 State tax withheld \$
		15 State/Payer's state no.	16 State distribution \$	17 Local tax withheld \$	18 Name of locality \$
		19 Local distribution \$	Form 1099-R		

1099-R

Roth IRA



<input type="checkbox"/> CORRECTED (if checked)		OMB No. 1545-0747		IRA Contribution Information	
TRUSTEE'S or ISSUER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code		1 IRA contributions (other than amounts in boxes 2-4, 8-10, 13a, and 14a) \$	2023	Form 5498	
TRUSTEE'S or ISSUER'S TIN		2 Rollover contributions \$	3 Roth IRA conversion amount \$	4 Recharacterized contributions \$	
PARTICIPANT'S TIN		5 FMV of account \$	6 Life insurance cost included in box 1 \$	Copy B For Participant	
PARTICIPANT'S name		7 IRA <input type="checkbox"/> SEP <input type="checkbox"/> SIMPLE <input type="checkbox"/> Roth IRA <input type="checkbox"/>	8 SEP contributions \$	9 SIMPLE contributions \$	
Street address (including apt. no.)		10 Roth IRA contributions \$	11 If checked, required minimum distribution for 2024 <input type="checkbox"/>	12a RMD date	
City or town, state or province, country, and ZIP or foreign postal code		12b RMD amount \$	13a Postponed/late contrib. \$	13b Year	13c Code
Account number (see instructions)		14a Repayments \$	14b Code	15a FMV of certain specified assets \$	
		15b Code(s)	Form 5498		

5498

Roth IRA Investment Rules



Roth Investment Options

- Like a Traditional IRA's permitted investment options, you may hold almost anything in your Roth. Let's dig in.

What You Can Invest In



✓ Real estate

- Commercial, residential, multi-unit, developed and undeveloped land, etc.

✓ Private equity/Private placements

- LLCs, LPs, joint ventures, start ups, crowdfunding

✓ Private lending

- Secured or unsecured notes

✓ Precious metals

- Gold, silver, palladium, etc.

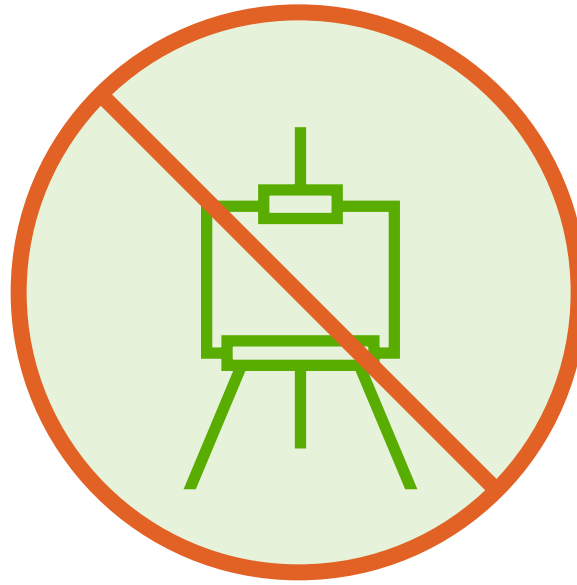
✓ Cryptocurrency

✓ And much more

Investments Restrictions



Life Insurance



Collectibles



S Corporations

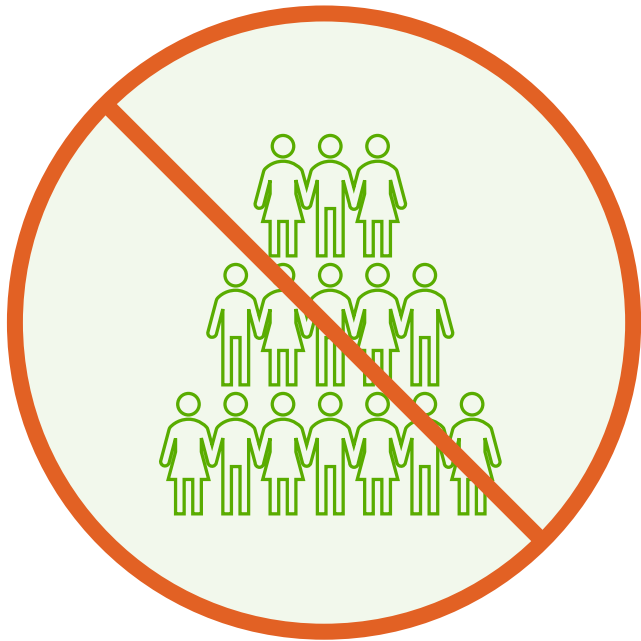
What is a Prohibited Transaction?

- Any improper use of your IRA by you, your beneficiary, or any disqualified person (*IRS Publication 590*)
- No Self-Dealing/'must be arm's length' transactions
- Prohibited transactions can be direct or indirect

Acceptable Transactions

- ✓ Partnering with yourself on a new deal
- ✓ Partnering with your cousin
- ✓ Partnering with your spouse on a new deal
- ✓ Leasing the property to your siblings

Learning The Rules: Disqualified Persons



- **You**
- **Your Spouse**
- **Your lineal descendants and their spouses**
- **Your lineal ascendants**
- **A beneficiary of the IRA**
- **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**

Roth IRA Reporting to the IRS

Roth IRA Reporting and Taxation

- Qualified distribution
 - IRS code Q on IRS Form 1099-R
 - Tax-free
- Nonqualified distribution
 - Ordering rules
 - IRA holder files IRS Form 8606 part III
 - IRS codes J or T on IRS Form 1099-R

VOID CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Gross distribution \$	OMB No. 1545-0119 2023 Form 1099-R	Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.	
		2a Taxable amount \$			
		2b Taxable amount not determined <input type="checkbox"/> Total distribution <input type="checkbox"/>		Copy 1 For State, City, or Local Tax Department	
		PAYER'S TIN	RECIPIENT'S TIN		
RECIPIENT'S name Street address (including apt. no.) City or town, state or province, country, and ZIP or foreign postal code		5 Employee contributions/ Designated Roth contributions or insurance premiums \$		6 Net unrealized appreciation in employer's securities \$	
		7 Distribution code(s)	IRA/SEP/SIMPLE <input type="checkbox"/>	8 Other \$ %	
		9a Your percentage of total distribution %	9b Total employee contributions \$		
10 Amount allocable to IRR within 5 years \$	11 1st year of desig. Roth contrib.	12 FATCA filing requirement <input type="checkbox"/>	14 State tax withheld \$	15 State/Payer's state no.	16 State distribution \$
Account number (see instructions)		13 Date of payment	17 Local tax withheld \$	18 Name of locality	19 Local distribution \$

Form **1099-R** www.irs.gov/Form1099R Department of the Treasury - Internal Revenue Service

Qualified Distribution

5-Year Period

AND

1 of the **4** qualifying events:

1. Death
2. Disability
3. Turning 59 ½
4. First time home buyer (\$10,000)

IRS distribution code Q on IRS Form 1099-R

Additional Tax Reporting

- IRS Form 990-T Exempt Organization Business Income Tax Return
 - Unrelated Business Income Tax (UBIT)
 - Applies to income that exceeds \$1,000
 - IRA will need to acquire its own EIN
 - May be required for the following types of investments:
 - Partnerships
 - LLCs
 - Must be filed electronically

The image shows a thumbnail of the IRS Form 990-T. The form is titled "990-T Exempt Organization Business Income Tax Return (and proxy tax under section 6033(e))". It is for the year 2022. The form includes fields for the name of the organization, employer identification number, and a checkbox for address changes. It also contains instructions to go to www.irs.gov/Form990T for instructions and the latest information. The form is open to public inspection for 501(c)(3) organizations only.

Additional Tax Reporting

- Leveraged investments under an IRA may also be subject to Unrelated Debt-Financed Income (UDFI) taxes
 - Filed with IRS Form 990-T
 - Leveraged portion of asset income is subject to trust tax rates



Investments Not Subject to UBIT

- **Examples:** (*IRS Publication 598, Tax on Unrelated Business Income*)
 - Corporations
 - Stocks (dividends)
 - Rental property (rents)
 - Rights (royalties)
 - Disposition of property (gains)
- Leveraged investments may be subject to UDFI
 - Such as a single-family property purchased using a nonrecourse loan

Unrelated Debt-Financed Income Tax

- Any property held to produce income (including gains from its disposition), for which there is an acquisition indebtedness at any time during the tax year
- **Example:**
 - Ernie purchased an income property using his IRA to fund 50% of the purchase price, and funding the other 50% from a non-recourse loan lender
 - The monthly income of the property is \$2,000
 - Assuming the payments towards the loan go only towards the interest accrued, 50% of the monthly income will be taxed
 - The income will be taxed at trust tax rates

IRS Form 990-T

Form **990-T**

Exempt Organization Business Income Tax Return (and proxy tax under section 6033(e))

OMB No. 1545-0047

For calendar year 2022 or other tax year beginning _____, 2022, and ending _____, 20

2022

Go to www.irs.gov/Form990T for instructions and the latest information.

Open to Public Inspection

Department of the Treasury
Internal Revenue Service

A Check box if
address changed.

Part I Unrelated Trade or Business Income		(A) Income	(B) Expenses	(C) Net
1a	Gross receipts or sales			
b	Less returns and allowances			
	c Balance ▶	1c		
2	Cost of goods sold (Part III, line 8)	2		
3	Gross profit. Subtract line 2 from line 1c	3		
4a	Capital gain net income (attach Sch D (Form 1041 or Form 1120)) (see instructions)	4a		
b	Net gain (loss) (Form 4797) (attach Form 4797) (see instructions)	4b		
c	Capital loss deduction for trusts	4c		
5	Income (loss) from a partnership or an S corporation (attach statement)	5		
6	Rent income (Part IV)	6		
7	Unrelated debt-financed income (Part V)	7		
8	Interest, annuities, royalties, and rents from a controlled corporation (Part VI)	8		

Let's Test What We've Learned

True or False: Roth IRA investment earnings always distribute tax-free

A. True

B. False

What's Next?



Upcoming Webinar – IRA LLCs: Is Checkbook Control Right for You?

➔ Register today & join us September 20!



Want to learn something new?

➔ Let us know in the survey as you leave



Need more information on SDIRAs?

➔ Visit our website and Learning Center



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Time for Questions



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Director of Professional Development



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“

Education is the passport to the future, for tomorrow belongs to those who prepare for it today.

- *Malcolm X*

