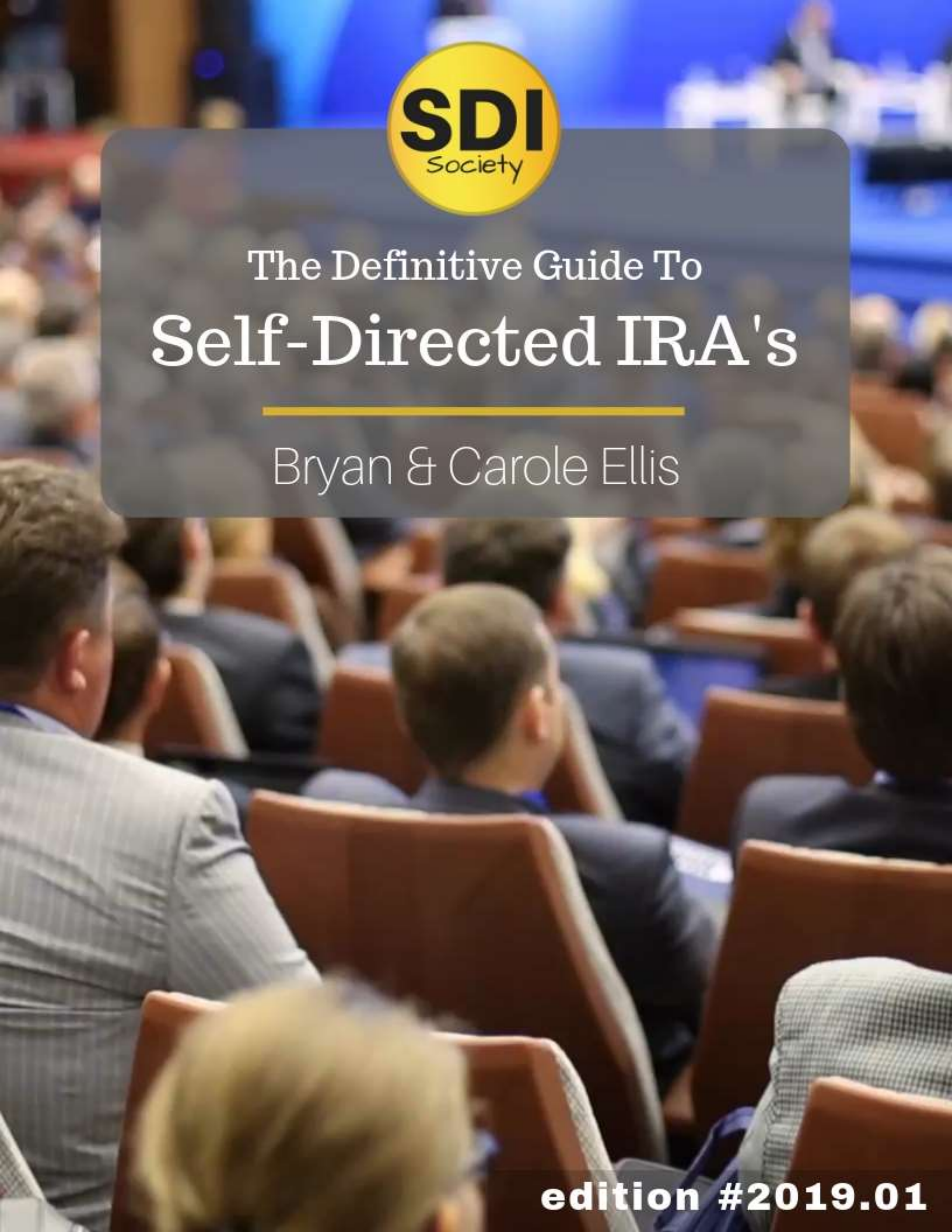

SDI Society

The Definitive Guide To Self-Directed IRA's

Bryan & Carole Ellis

edition #2019.01

The Definitive Guide To Self-Directed IRA's

BRYAN & CAROLE ELLIS
https://SelfDirected.org

DO YOU HAVE THE LATEST EDITION OF THIS eBOOK?

The rules governing self-directed IRA's change frequently, and each month, new court decisions affecting self-directed IRA's are handed down.

For that reason, this eBook is updated on a very frequent basis.

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Additionally, I'll give you free access to a number of other resources, including:

- My comprehensive listing of Self-Directed IRA Companies
- A list of self-directed IRA attorneys, and some specific recommendations
- Access to the Self-Directed Investor (SDI) Society's discussion forum
- and quite a bit more…

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DEDICATION

Carole, I love you. There hasn't been a single day that I wouldn't choose to experience life with you all over again… though I'd give anything to be able to do parts of it *better*, because you deserve the very best of everything that anyone could ever have. I couldn't have made any of this happen without you. Thank you.

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Warning

Self-directed IRA's are like the financial version of dynamite.

Dynamite is incredibly powerful. In the hands of a skillful user, such power can create works of surpassing beauty like Mount Rushmore…

Indeed, Mount Rushmore couldn't have become the astounding spectacle it is without the power of dynamite…

But the creative power of dynamite can be quite dangerous if not used with great care and skill. So too self-directed IRA's, which represent both great potential and great risk not otherwise acquainted with your retirement portfolio.

Educate yourself thoroughly in advance and always seek the counsel of legal counsel before each transaction.

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Introduction

Self-directed IRA's are <u>exploding</u> in popularity.

Just a few years ago, there were so few self-directed IRA's that it was mere fantasy for a self-directed IRA company to have over $1 Billion in assets under custody…

…But now, there are several SDIRA custodians who are well over the $10 Billion level.

That's massive growth…

And it's easy to see why. The core benefit of self-directed IRA's is FLEXIBILITY!

Self-Directed IRA's allow you to invest your retirement savings in practically anything...

- ✓ Real Estate
- ✓ Tax Liens
- ✓ Private Loans
- ✓ Hedge Funds
- ✓ Cryptocurrencies
- ✓ Private Businesses
- ✓ Intellectual Property
- ✓ Hard Money Loans
- ✓ Precious Metals
- ✓ Private Equity
- ✓ Accounts Receivables
- ✓ much more…

The raw potential here is astounding…

…And trust me… however much potential you've dreamed up for using a self-directed IRA, there's far more ninja-level strategy you've never heard of that will blow your mind.

But here's the trick to it:

If you have some expertise in alternative asset investing, self-directed IRA's can change your life…

Otherwise, you should just stay away from them entirely.

The thing is, nearly nobody really understands self-directed IRA's… (and that definitely includes most of the custodians and attorneys that claim to be experts!)

It's so bad that even the U.S. Federal Government released a report in early 2017 that called out the IRS and the entire industry for not providing enough guidance on self-directed IRA's:

It’s not that there’s a shortage of information out there…

…It’s just that none of it has been particularly effective at helping you get the benefits of self-directed IRA’s while avoiding the devastating risks… at the same time.

This is where I raise my hand to help.

I’m not a conventional financial advisor, so I’m not biased in favor of Wall Street assets.

And I don’t run a self-directed IRA company, so the limits that apply to them just don’t apply to me…

And I’m not a lawyer, but I do teach a law class about the topic of self-directed IRA’s for one of the largest university systems in the world.

So what do I bring to the table for you?

What I bring is a ton of experience… a creative mind… and the ability to explain these concepts to you clearly.

The Challenge of Getting Accurate Advice About Self-Directed IRA's

Self-Directed IRA Providers	Conventional Advisors	Retirement Attorneys
There are plenty of self-directed IRA custodians who do a great job, but the law puts severe limits on how much they can really educate & advise you.	Guidance from typical financial advisors (and directly from the IRS) is designed to steer you away from alternative assets and towards conventional assets sold by Wall Street.	There's a small handful of attorneys with impressive IRA expertise but who simply don't have the ability to make this very complex topic understandable

My entire career revolves around helping people understand self-directed retirement accounts, like the self-directed IRA…

…and everybody from the University of California… to the top self-directed IRA attorney in America… to some of the most highly-respected publications in America all vouch for me.

I say this not to brag, but to communicate a simple point:

Some of Bryan Ellis’ Self-Directed IRA Bona Fides

University of California Bryan Ellis teaches self-directed IRA law through the University of California's CEB (Continuing Education of the Bar).

Forbes Magazine Forbes Magazine regularly publishes Bryan Ellis' writing on the topic of investing in Self-Directed IRA's,

Timothy Berry, J.D. Tim Berry, one of the leading and most respected self-directed IRA attorneys in America, describes Bryan Ellis as "the best in the business" for understanding self-directed IRA's.

TheStreet A wildly popular financial website founded by CNBC's Jim Cramer, TheStreet has published Bryan Ellis' writing on the topic of self-directed IRA's.

Salvatore M. Buscemi Mr. Buscemi -- hedge fund manager, author of ***Making The Yield: Real Estate Hard Money Lending Uncovered*** and formerly of Goldman Sachs -- describes Bryan's work as the "preeminent resource for self-directed retirement accounts".

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I’m going to tell you the truth about this stuff. There’s zero conflict of interest.

I know this topic…

…And the truth is different from popular assumptions.

That’s the point of the report you’re now reading, The Definitive Guide to Self-Directed IRA's. I wrote this for 3 reasons, all of which benefit you:

3 Reasons I Wrote This Book For You

1 Self-Directed IRA’s are underused. I think more people can and should take advantage of them, but the conventional financial world has a strong disincentive to educate you about them.

2 Self-Directed IRA’s can be risky without the right knowledge. The consequences of making an error can be dire. I have particular expertise in this area, and want to help you avoid those errors.

3 If you're an investor who is able to simultaneously think creatively and show great respect for the legal rules, self-directed IRA's can make you rich in a way unlike any other type of financial tool.

Get the **latest edition of this guide** now. Text IRAGUIDE to 833-212-2112.

But there are some things you need to learn so you can avoid the problems and enjoy the benefits…

And that's what The Definitive Guide to Self-Directed IRA's is all about.

So let's begin…

1: What is a Self-Directed IRA?

A self-directed IRA is a type of retirement savings account that allows you to invest in nearly any type of asset you want.

In a truly self-directed IRA, practically any type of investment is "on the table"… real estate, precious metals, private companies… you name it.

Just imagine if, instead of being forced to keep your money in stocks even when the market was at its worst, you could instead have put your money into a great real estate deal or invested in a solid small business.

Or maybe you like investing in stocks, but you'd rather invest in pre-IPO companies to get the biggest bang for your buck…

…but your conventional IRA or 401(k) just didn't allow you to do that.

Well good news, my friend: That problem is solved, and the answer is self-directed IRA's!

You're probably already familiar with the more conventional type of IRA…

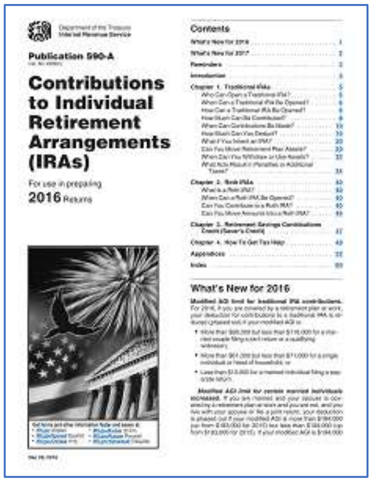
…You know, the type that limits you to stocks, mutual funds, etc.

Those are what I call “captive” IRA’s, because if you use one of those IRA’s, then your money is captive to the limitations of the IRA company.

<u>Captive</u> IRA’s		**<u>Self-Directed</u> IRA’s**
Captive IRA's provide all of the tax benefits of any IRA, but they restrict your investment options quite severely. Usually, captive IRA's limit you to investing in assets sold by the IRA company itself.	vs.	Truly self-Directed IRA's empower investors to purchase assets of nearly any type. There are no restrictions other than those imposed by law. Self-directed IRA's are supremely flexible.

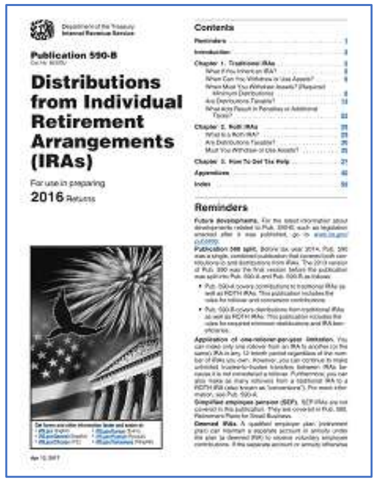
In this guide, we’re going to focus rather exclusively on the things that make self-directed IRA’s truly unique from captive IRA’s. However, it’s rather important that you understand that all IRA’s, whether self-directed or captive, are governed by the same rules and laws.

So if you’re not familiar with IRA basics, a great place to start is the publications about IRA’s provided by the IRS, which you can see by clicking any of these images:


Publication 590-A

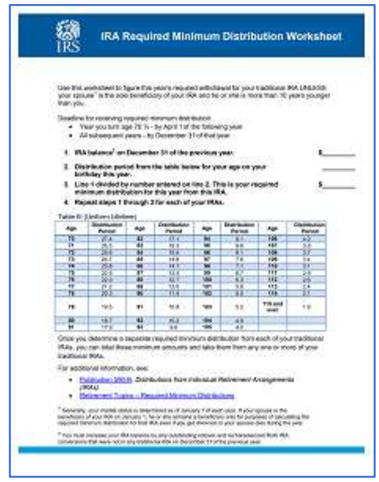
Contributions to Individual Retirement Arrangements (IRAs)

For use in preparing 2016 Returns


Publication 590-B

Distributions from Individual Retirement Arrangements (IRAs)

For use in preparing 2016 Returns


IRA Required Minimum Distribution Worksheet

You may notice my focus on distinguishing between real self-directed IRA's and their captive cousins. That's because a whole lot of IRA companies use the term "self-directed"… but it's not entirely accurate.

Here are just a few examples of companies that claim to offer some sort of self-directed IRA's but actually only offer stock-market investing IRA's:

- ✓ Charles Schwab & Company
- ✓ Fidelity Investments
- ✓ eTrade
- ✓ Ameriprise Financial
- ✓ T.D. Ameritrade
- ✓ many more…

Frequently these companies offer a form of "self-directed brokerage" account. This means that to the extent that your asset of choice can be purchased within their brokerage accounts, you are allowed to do so within your IRA. But this is not the same as a self-directed IRA, which imposes no such limitations.

That's not to say those companies do a poor job. To be clear, I used to have an account at Schwab, and they did a great job helping me to trade conventional assets. I'll bet that the others are really good, too.

But if you're thinking bigger than just stocks and mutual funds, then captive IRA's – like those offered by the companies above and nearly every other IRA company – just won't do the trick…

…and that's where the Self-Directed IRA comes into play.

Surprise: Self-Directed IRA's are Identical To Captive IRA's (Sort Of)

Would you believe that, under the law, there's no such thing as either a self-directed IRA or a captive IRA?

It's true.

That's because the law that created the IRA (26 U.S. Code § 408) only established the "IRA" – the Individual Retirement Account:


U.S. Code › Title 26 › Subtitle A › Chapter 1 › Subchapter D › Part I › Subpart A › § 408

26 U.S. Code § 408 - Individual retirement accounts

US Code | Notes | IRS Rulings | Authorities (CFR)

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The adjectives "self-directed" and "captive" and "conventional" aren't found in the law at all. What this means to me and you is this:

An IRA is an IRA is an IRA. They're all the same.

The rules that apply to a captive (aka "conventional") IRA also apply to a self-directed IRA and vice versa.

No exceptions. Specifically:

4 Ways All IRA's Are *Identical*

- ✓ **Tax Benefits** are identical
- ✓ **Contribution Limits** and **Withdrawal Rules** are identical
- ✓ **Estate planning (inheritability) features** are identical
- ✓ **Statutory protection against creditors** are identical

From the point of view of the law, one IRA is the same as the next.

There are not different rules for captive IRA's versus self-directed IRA's.

But there's more to it than that…

Self-Directed IRA's are **Radically Different** From Captive IRA's

Yes, I know I just said self-directed IRA's and captive IRA's are absolutely identical under the law.

They are. I'm not changing the story.

But one of the things the law allows is for IRA companies (usually called "custodians") to select which types of assets that they will and will not service for their clients.

And that, as it turns out, is the key difference between captive and self-directed IRA's:

The sole difference between a self-directed IRA and a captive IRA is the company that provides the IRA.

How do you know whether you have a self-directed or a captive IRA?

Use the Dairy Cattle Test! Call your IRA custodian and ask if you can invest your savings into something like "dairy cattle"…

…if the answer is "yes" then you have a self-directed IRA!

So while it's still true that an IRA is an IRA is an IRA, there's one more fundamental truth:

Some of the rules (and the consequences of breaking them) really only apply to self-directed IRA's versus captive IRA's, so you must understand those rules...

…because if you plan to use the amazing flexibility that the self-directed IRA offers, you've got to be sure that you "stay in your lane" and always respect the rules.

(I'll teach you about them in this guide.)

What Type of Self-Directed IRA Is Best For You?

As many types of of IRA's as there are (like traditional, Roth, SEP, etc.), there are just as many self-directed IRA's. There are, in fact, nearly a dozen different types of self-directed retirement accounts available to you.

At first glance, it seems like the differences among them are important but rather simplistic, focusing primarily on things like whether you get a tax break when you deposit money (Traditional) or when you take it out (Roth)…

…But the differences among account types run <u>*much*</u> <u>*deeper*</u> than that.

Choosing the right <u>type</u> of account is of ***supreme importance for self-directed IRA owners.*** The reasons for this are many and are so important, in fact, that the seemingly "simple" choice of which type of account to use could actually cost you most or all of your retirement account should a series of unfortunate but entirely realistic scenarios play out in your life.

Selecting the right type of self-directed IRA is a complex question and is something that must be done in concert with your tax advisor, so we'll leave that question for them to answer for you…

…But I've found that many tax advisors are extremely ignorant of the issues involved in this decision beyond tax considerations, such as legal liabilities, estate planning issues and multi-account asset structuring strategies.

Even though this particular question is beyond the scope of this guide, I can't simply leave you alone to figure it out for yourself, even with the help of your tax advisor…

…So I've created a companion video to this guide that will really help you dig into this question and see the distinctions among the various accounts from a different and better perspective.

It will definitely help you to identify the issues you should be considering in this question so you can bring them up with your tax advisor and be sure that all of the important issues are addressed.

To access the SDI Society introduction to selecting the right type of self-directed IRA for you, just text the word IRAGUIDE to 833-212-2112 and I'll send a link to you right away.

And now…

2: Not Everyone Should Use A Self-Directed IRA. Should You?

It's possible that you should not use a self-directed IRA.

Shocking, I know. But it's true.

Let's find out, shall we?

Self-directed IRA's are insanely powerful and flexible. If you want to invest in anything from real estate to cryptocurrencies to tax liens or nearly anything else, a self-directed IRA can make it possible.

But as "Uncle Ben" in the Spiderman comics and movies used to say, "With great power comes great responsibility."

The Astounding Potential of a Self-Directed IRA

What, exactly, can you do with a self-directed IRA?

Nearly anything you can imagine.

If you're using a captive IRA, you could, for example, buy stock in a company in the oil business.

But with a self-directed IRA, you could:

- ✓ Buy oil and gas rights directly
- ✓ Buy real estate in order to drill for oil
- ✓ Own heavy equipment that is leased to oil companies
- ✓ Invest in research and development… and license your patents to oil companies
- ✓ Oh yeah… you could just buy oil stocks too, if you wanted to do something so unimaginative 😊

Obviously, you're not restricted to activity in the oil business. That's just one example. If it's an investment asset, chances are very high it will work with a self-directed IRA.

But it's not just the ability to invest in alternative assets that's so appealing. There are some truly ninja-level strategies that simply can not be performed in a captive IRA, including our infamous Hourglass Technique and others.

It’s tempting to veer off into some of the ninja-level strategies that can only be accomplished with self-directed IRA’s and never with captive IRA’s. If you’d like to learn more about those strategies, text IRAGUIDE to 833-212-2112. But for now, the point is this:

There are some tremendously valuable things that simple can never, ever be done in an IRA *unless* it is a self-directed IRA…

…Here’s why:

How Self-Directed IRA’s Work Differently from Captive IRA’s

Captive IRA’s are superior to Self-Directed IRA’s in one and only one way: Simplicity.

With a captive IRA, the IRA company offers only one or a few closely related types of assets. And where those types of assets are concerned, captive IRA companies know the rules…

…They know how to acquire the assets on your IRA’s behalf.

…They know how to sell the assets on your IRA’s behalf.

…They know how to acquire valuations for your IRA’s assets.

They do all of these things a gazillion times each year. None of it's new to them.

Take an IRA at a stock brokerage, for example.

You don't have to explain to them how to buy a stock. That's their expertise.

But things are different with self-directed IRA's. Not only must you be able to find and evaluate great investments, but you must also know exactly how to execute the transaction well enough to guide your IRA company in how to complete the deal on your behalf.

Consider the purchase of a piece of real estate.

If you call up your IRA company and instruct them to have your IRA buy a particular piece of real estate, what are they going to do?

Nothing… there's *nothing they can do*!

There's a lot that has to happen before that point, like:

- ✓ Contact the owner
- ✓ Negotiate terms
- ✓ Create a contract
- ✓ Sign the contract
- ✓ Perform due diligence
- ✓ Sign closing documents

and on and on and on…

That stuff isn’t the job of your self-directed IRA custodian. Not only won’t they do it, but it’s actually legally perilous for them to get anywhere near that stuff, so don’t expect them to do so.

We’ll get into the role of your custodian a bit later, but for now, understand this:

The primary job of your custodian is to execute transactions that affect the assets or obligations of your IRA. It is not their role to find and vet investments.

Whose job is all of that?

Yours!

…And that’s both inconvenient and wildly exhilarating, because it’s specifically that responsibility – the responsibility of finding your own investments – that gives you the ability to do so many amazing things in your self-directed IRA.

I don’t want to give you the impression that your custodian has nothing to do with this. They certainly do. But we’ll get into that more a bit later.

Self-Directed IRA's and Risk: What You Must Understand

Doesn't all of the added responsibility of owning and operating a self-directed IRA increase your risk?

Well, yes it does… maybe.

But the hubbub you may have heard about the risk of self-directed IRA's is sometimes overstated and nearly always misstated.

Here are three things you should understand about the "risk" of using a self-directed IRA:

1. If you feel that self-directed IRA's are risky, you shouldn't use them.

2. If you listen to conventional financial professionals about this, they'll mislead you. (I'll prove it.)

3. If you do use a self-directed IRA, don't underestimate the harsh ramifications of screwing up. You can avoid screwing up by getting good professional advice.

Ok, now that the general advice on risk is done, let's look at this from a different point of view, shall we?

Answer this question for me:

If you're a master real estate investor, but you know little about the stock market, which is a safer investment for you?

Clearly, real estate would be safer. And for that, the right tool for the job for you is a self-directed IRA.

In that case, a self-directed IRA is the only way to invest in the asset class that's actually safest and most likely to be profitable for you.

To avoid using a self-directed IRA just because the conventional financial world prefers conventional IRAs is nothing short of asinine.

Here's some good advice on this matter:

Don't use a self-directed IRA unless you have a clear idea of what you'll do with it.

And if you do use a self-directed IRA, you should be prepared for the fact that it will require more accounting and legal advice than you'd need if you were buying mutual funds.

Why is that?

A self-directed IRA is almost like your own private hedge fund. You've got to keep records for things like taxes and audits.

It's simple: There are rules, and you've got to follow them. Breaking them can be cataclysmic…

…And since you don't know those rules, you need to get help from somebody who does.

But that's not a big burden. You're going to have a strong working knowledge of those rules just by reading this guide.

But more fundamentally, here's some incredibly simple advice that can nearly eliminate the risk of breaking the rules.

Before every transaction in your self-directed IRA, call an IRA attorney and ask these things:

1. Is any part of this transaction prohibited or taxable?

2. Are there any danger zones that would take my IRA out of compliance?

3. At what milestones should I have you review the transaction again?

That's it. Ask those three questions to a good IRA attorney before every transaction, follow their advice, and you'll be solid.

By the way… there's a growing number of attorneys who call themselves "self-directed IRA experts," but most of them have very little real experience…

…Thankfully, there is a handful of really good self-directed IRA attorneys out there right now. Contact information for them, along with my recommendations on the best alternatives, is available in the companion resource guide to this book. (Get it free by texting the word IRAGUIDE to 833-212-2112… normal message & date rates may apply.)

Ok, that's enough about attorneys for now. Let's return briefly to the topic of "risk" associated with self-directed IRA's.

I'll take this opportunity to decimate the basis of the argument many conventional financial advisors use to recommend against self-directed IRA's, which is:

Didn't the Securities and Exchange Commission Warn Against Using Self-Directed IRA's?

No.

Back in 2011, the SEC did issue a warning about fraud happening in Self-Directed IRA's. You can see that report here.

This report was published because a few cases of fraud had been perpetrated by hucksters who convinced unsophisticated people to open self-directed IRA's and invest in their wild schemes.

Those people lost money, and that's a terrible thing. I hate to hear about anyone being victimized. I do not minimize the significance of the loss to those people in any way.

But here's what the SEC *actually* said:

Furthermore, to establish context for this situation, you should understand that the total amount of financial loss in all of the cases described in that report was less than the collective loss of wealth that happens when the stock of Apple Computer declines by *a single penny!*

Yet still… all you hear from conventional financial "experts" is how "risky" self-directed IRA's are.

The thing is… they're misleading you.

A perfect example?

Clark Howard.

Clark Howard is a very well known “consumer advocate” on radio, TV and the internet who usually gives pretty good advice.

But he absolutely made a fool of himself in his response to that report. He published a video that completely ignored what the report actually said, which you saw above.

Stop The Press!

I just looked, and the video on Clark's website with the misleading content has been taken down, probably in response to this article I wrote for Forbes.

Kudos to Clark Howard for this! If you'd like to see the original video published on another site, check this out. I'm hoping that the removal of the video means he's changed his position. Reach out and let us know, Clark!

Also in that article in Forbes, I addressed another of the most common criticisms from the conventional financial world:

“Self-Directed IRA’s Are Too Risky Because They’re Complex”

Gee whiz, people.

If what you’re looking for is the simplest solution in the world, don’t use a self-directed IRA.

There. Problem solved.

But if that's the way you think, then… only use the 1040EZ to file your taxes, because using the full 1040 form is too risky because it's complex (even though you could save a LOT of money).

And never drive – or ride in – a car. Walking is far less complex, and much safer.

And if you feel chest pain, take an aspirin, but don't see a cardiologist. Because all of those medical procedures are so complex… just too risky.

Yes… All of that is a bit tongue-in-cheek, I admit.

If "complexity" is something that scares you, self-directed IRA's aren't for you.

But the simple truth is this:

You shouldn't be handling the parts of this that are complex. That's what expert lawyers and CPA's are for.

Besides, the complexity is a blessing.

Here's what top self-directed IRA Tim Berry has to say about it:

So let’s not kid ourselves, my friends:

If you’re the type of person who responds to knee-jerk characterizations like “self-directed IRA’s are risky” or “self-directed IRA’s are too complex,” then, you shouldn’t use a self-directed IRA.

As for the rest of us…

Let’s begin to learn some of those rules so we can profitably exploit them for our own benefit!

3: What Can You Buy In A Self-Directed IRA?

Your self-directed IRA can buy very nearly anything you want from very nearly anyone you want.

The operative words here are *very nearly*.

So what does "very nearly" mean?

It means that there are almost no limits at all on what your IRA can own. Some assets into which your fellow SDIRA owners have invested include:

- ✓ Real Estate
- ✓ Precious Metals
- ✓ Pre-IPO Companies
- ✓ LLC's
- ✓ Promissory Notes
- ✓ Intellectual Property
- ✓ Copyrights
- ✓ Databases
- ✓ Heavy Equipment
- ✓ Accounts Receivables
- ✓ Livestock
- ✓ Options/Futures
- ✓ Cryptocurrencies
- ✓ Hedge Funds
- ✓ Private Equity

And that's just a short list of the possible investments!

It’s almost accurate to say “the sky is the limit” in your freedom to select assets for your IRA.

In fact, rather than attempting to list everything that is allowed in your IRA, the law only prohibits 2 specific asset classes…

Two Investments You Should Never Make With Your Self-Directed IRA

Back when the IRA was created by Congress in 1974, there were only two types of investments prohibited in IRA’s:

- Life Insurance
- Collectibles

It’s pretty easy to know if you’re buying life insurance…

…But “collectibles”? What does that mean?

Well, our pals at the IRS were kind enough to give us the following list:

Here are some examples of collectibles:

- Artwork,
- Rugs,
- Antiques,
- Metals - with exceptions for certain kinds of bullion,
- Gems,
- Stamps,
- Coins - (but there are exceptions for certain coins),
- Alcoholic beverages, and
- Certain other tangible personal property.

There are some interesting things on this list of prohibited assets, including “alcoholic beverages”!

So, if you were hoping to build a retirement fortune by collecting cases of Budweiser or Jim Beam, you’re out of luck, I’m sorry to report.

There’s a bit of a curveball in that list… did you catch it?

It’s that last one: “Certain other tangible personal property.”

Here’s what that means in plain English: The IRS could add to that list at any time, without warning.

So here’s a good, safe way to make sure you don’t let your IRA buy something that later turns out to be a collectible:

Ask a great attorney (text IRAGUIDE to 833-212-2112 for a list of attorneys I recommend). It will be money well spent…

…because if you buy assets you shouldn't, and the IRS catches you, it's going to hurt.

How badly will it hurt?

Well, the IRS will treat your purchase of prohibited assets as a "distribution".

Doesn't sound so bad, does it?

Well… It is bad.

Imagine, for example, your IRA purchases a piece of artwork for $50,000…

Artwork is a collectible, and clearly on the "no-no" list.

But you probably didn't understand that when you bought it, so you were expecting to let the art appreciate in value and then to sell it for a profit in the future… and to pay no taxes in the mean time.

After all, that's the wonderful promise of an IRA!

That's not what will actually happen when you purchase prohibited assets.

Instead, the IRS will categorize the $50,000 you used to purchase the artwork as a “distribution”. You might call it a “withdrawal”.

What does that mean?

It means lots of taxes, penalties and interest.

You’ll owe some or all of the following taxes:

- Regular income taxes on $50,000
- A 10% early withdrawal penalty
- Interest (usually 3-7 year’s worth)
- Underpayment penalty (20%)

It’s entirely plausible that, depending on the amount of interest accrued, and whether the IRS hits you with all of the possible penalties, that you could end up paying somewhere between 40% and 100% of the $50,000 distribution to the IRS.

But here’s the awful thing: You don’t actually have that money, because you bought artwork with it…

…that means you’ll have to come up with the payment to the IRS of between $25,000 and $50,000 out of your own pocket.

Here’s the bottom line: Don’t buy prohibited assets. When the IRS catches up to you – and they eventually will – you’ll pay dearly.

S-Corporations and Your Self-Directed IRA: A Common Myth That's [Mostly] Wrong

Far and away, the most common type of asset purchased in IRA's – whether self-directed or captive – is the Corporation.

When you buy publicly traded stock, that's what you're buying: shares of a corporation (a business).

But all of the corporations you can buy on the stock market have one thing in common: They're taxed as what's called a "C" Corporation.

It's totally kosher for your IRA to own that type of corporation.

But there's another type of corporation called an "S" corporation.

Actually, it's not a different type of corporation. It's just a different tax classification that the IRS uses…

…And if a corporation has the "S" classification, then it's entitled to some pretty major tax benefits.

But here's the thing:

The law that created the "S" corporation status put some pretty strict limits on who can own shares in that type of corporation.

Unfortunately, IRA's aren't among the fortunate few.

So what happens if an IRA – or any unauthorized entity – becomes owner of shares of an S-Corporation?

In that case, the S-Corporation loses its "S" status… and all of the major tax benefits that go along with that status instantly disappear.

In other words, it harms the corporation substantially… and by extension, it harms you as an owner of the corporation, and it harms the other shareholders as well.

Basically, you're screwing everybody who is an investor in that corporation.

So, yes, there are definite negative ramifications for owning shares of an S-corporation in your self directed I.R.A.

But that's very different from being classified as a "prohibited asset" for purposes of your IRA, and here's why:

If you purchase a prohibited asset – life insurance or collectibles – in your IRA, the IRS will reclassify that transaction as a distribution, and you'll be hit with nasty taxes, penalties and interest.

Shares of an S-corporation, on the other hand, are not prohibited assets, and will not cause the IRS to declare your investment in those shares as a "distribution"…

…But the corporation itself will suffer, as ownership of shares in an S-corporation by any unauthorized entity (including your self directed

IRA) will cost the corporation all of the substantial tax benefits of being an S-corporation.

Bottom line on S-Corporations in your self-directed IRA:

Will the purchase of S-Corporation shares in your SDIRA constitute reclassification as a “distribution” in your IRA? No.

Will the Corporation purchased in your SDIRA (and all of your fellow owners of the corporation) suffer financially because of the loss of its “S” status? Yes.

Do yourself a favor and stay away from S-corporations in your self-directed individual retirement account.

A Special Note About Investing in Gold or Other Precious Metals

In recent years, I’ve seen a lot of marketing for something called a “gold IRA”.

Under the law, there’s actually no such thing as a “gold IRA” or a “precious metals IRA”.

Companies who advertise these accounts are actually just Captive IRA custodians who limit their clients to ownership of precious metals, much like other captive IRA companies limit their clients to stocks or mutual funds.

But the very notion of a "gold IRA" seems to conflict with something you saw earlier, which is:

Gold is a metal. Silver is a metal. Platinum is a metal…

…And as you saw a moment ago, "metals" are clearly on the list of asset classes prohibited within your IRA by the IRS.

So how can it be that so many companies are advertising the ability to own gold, silver or platinum in your IRA?

It's because even though metals and coins are prohibited assets for your self-directed I.R.A., there are some exceptions stipulated under the law that allow your IRA to own precious metals and certain coins.

In essence, your IRA is allowed to own bullion and coins made of gold, silver, platinum or palladium as long as the purity reaches a particular standard.

I'll tell you more about using your self-directed IRA to invest in precious metals in a moment, because there are some other rules unique to this asset class you need to understand, so stick with me.

What you've seen in this chapter is that there are almost no asset class restrictions for your self-directed IRA, so practically everything (other than life insurance and collectibles) is on the table, but…

…for self-directed IRA's, the biggest question isn't really "what"… It's "whom"...

4: Disqualified Persons: How to Destroy Your IRA in One Easy Step

By now, you know that you are allowed to buy nearly anything – other than life insurance and collectibles – in your self-directed IRA.

That's good. Flexibility is good.

But there's one rule that trumps all of that flexibility…

…one rule that renders all other considerations moot.

That rule?

Your IRA's assets must never, ever be used to benefit a "disqualified person".

In general, disqualified persons are your family along with businesses you own or influence. I'll give you more specifics in a moment, but for now, understand this:

If your IRA transacts business with, or indirectly brings benefit to a disqualified person, then your IRA is guilty of something called a "prohibited transaction".

Prohibited Transactions can be, and usually are, cataclysmic for an IRA.

The penalties for prohibited transactions are even worse – far worse – than the penalties for investing in prohibited assets.

Committing a prohibited transaction – even if only by accident – can eliminate your IRA entirely in the blink of an eye.

It's that serious.

That means it's critical that you identify these dangerous scallywags known as "disqualified persons".

The IRS gives us a jumbled mess of a definition of "disqualified persons" here.

I will, of course, explain this in a manner that actually makes sense to you.

Broadly speaking, "disqualified persons" for purposes of your self-directed IRA include:

- You – the owner of the IRA
- Most of Your Family – your ancestors, descendants and their spouses

- Related Entities – any business or organization in which you or a family member have substantive ownership or influence
- IRA Account Professionals – your account custodian or anyone providing services connected to the IRA

Let's have a look at each of these…

Disqualified Person #1 – The Self-Directed IRA Owner

You must never, ever use your self-directed I.R.A in a way that brings you personal benefit.

Never, ever.

For example: If you own a piece of real estate and would prefer to own that real estate in your IRA, you're out of luck. Your IRA is prohibited from buying that property from you, even if for a fair price.

This goes in reverse, too. You aren't allowed to buy assets from your IRA, either.

Both of those scenarios represent the real possibility that you are personally benefiting from the assets of your IRA without first making a withdrawal from the account, and that is strictly prohibited.

This may be confusing for you.

After all, doesn't your IRA exist solely for your benefit, so you can have money to pay for your retirement?

Yes, it does… but only for the purpose of benefiting your retirement.

This is important: In the eyes of the law, you and your IRA are entirely separate entities.

If you use your IRA to benefit yourself in the here-and-now – or at any time prior to making proper withdrawals – you'll be in a whole lot of trouble when the IRS catches up with you.

What are some things you might do which the IRS would consider as a benefit to you, and therefore prohibited for your IRA?

Common examples of using your IRA for your own benefit are:

- Borrow money from your IRA
- Live in a house owned by your IRA
- Pay yourself to manage your self-directed account
- Sell assets to your IRA
- Buy assets from your IRA
- Use your IRA as collateral for a loan
- Personally accept a commission for purchase or sale of an IRA asset

- Allow your IRA to conduct transactions with other disqualified persons

You get the idea.

Basically, if anything about your life – other than your IRA balance – is improved by one iota on account of the use of your IRA or its assets, then you're in prohibited transaction territory…

…and that's very bad.

Those types of interactions with your self-directed IRA are pretty obvious and straight-forward. It really should be pretty easy for you to avoid those things.

But with prohibited transactions, the ones that hurt the worst are the most subtle and indirect…

Prohibited Transactions Case Study: Subtle, Indirect & Dangerous

Imagine this scenario:

Your self-directed IRA has invested in beach-front property.

Your plan is to withdraw that property from your IRA after you retire and live out your golden years on a beautiful, sandy beach.

There's nothing about that plan that's particularly problematic for your IRA. You're still on solid ground with the IRS.

But until you retire, you're just renting out your beach house through a property manager who handles vacation rentals. That's totally acceptable for your IRA, as well.

One weekend, there's nobody scheduled to rent your property, so you allow your boss to use it for the weekend. Your boss has a great time, and all is well.

Your boss isn't a disqualified person, so there's no problem there, but…

Danger, Will Robinson!

A few months later, you get the promotion that everybody in your department has been gunning for.

Hmmm….

Forget about whether you deserve the promotion. Maybe you did or maybe you didn't deserve it. That's not the issue.

The issue is this: Can the IRS reasonably claim that your gifting of the use of your IRA's property to your boss helped to get you the benefit of a promotion at your job?

Yes, that's a totally plausible claim… and it would cost you dearly…

…Even though it's subtle, indirect and completely accidental.

What would this cost you? Stick with me and we'll look at the rather terrifying financial ramifications. But first, another example…

Prohibited Transactions Case Study: The Property Next Door

Imagine this scenario:

John Doe owns a home where he and his family live. It's a growing area with rapidly growing real estate prices.

The opportunity arises for John to buy the run-down home that's directly adjacent to his home.

The price is right, and he'll win big with an appreciating real estate market and a little bit of fix-up.

So John buys that home in his self-directed IRA.

He does everything by the book…

When he bought the property, he used IRA money, and the property was titled in the name of the IRA. All good so far.

When he needed to repair the property, he called third-party professionals and paid them with IRA funds. All good so far.

When he had to pay his property tax and hazard insurance bills, they were paid directly from the IRA… exactly as they should be.

A year later, John sells that house, and his self-directed IRA enjoys a nice profit.

But 4 years later, when John is facing a random audit of his personal income taxes, the IRS takes a look at his self-directed IRA…

…and they declare him guilty of a Prohibited Transaction!

But how?

It's subtle.

The IRS' reasoning goes like this:

Real estate values are based on the values of similar properties in the area.

When a property's value rises, it raises the value of the properties around it.

John knew, according to IRS reasoning, that by purchasing and renovating the property next to his own, then John's personal residence would also increase in value.

To the IRS, this was a clear prohibited transaction.

It is a classic, though subtle, case of the assets of an IRA benefiting the owner of the IRA personally… even though that was never the intention.

The moral of the story? Be certain that none of your IRA investments have any way of brinigng benefit to you personally, apart from your IRA.

But it’s not just about *yourself*…

Disqualified Person #2 – Your Family

To the IRS, using your IRA to benefit your family members is the same as using your IRA to benefit yourself… it’s prohibited:

Essentially, you can apply the same descriptions I used above to your family members…

…so even though it’s not you personally, each of these is still prohibited:

- Allowing your IRA to buy assets from or sell assets to your wife

- Lending your IRA’s money to one of your children or grandchildren
- Allowing your aging parents to live in a property owned by your IRA

Here’s a good rule to follow:

If it’s a prohibited transaction for you, it’s a prohibited transaction for your family, too.

Curiously, though, the IRS doesn’t include all of your family as “disqualified persons”, though they do include most of those you’d expect:

- Your spouse
- Your children, grandchildren, etc.
- The spouses of your children, grandchildren, etc.
- Your parents, grandparents, etc.

What’s curious is who is not on that list.

Not included in the list of disqualified persons is:

- Your siblings and their spouses and children

- Your aunts, uncles and their spouses and children
- Former spouses – yours and your descendants
- Step-parents, step-grandparents, etc.
- Step-children, step-granchildren, etc.

So, for example, it is clear prohibited for your IRA to sell an asset to your wife…

…but sell the same asset to your brother or step-mother or uncle, and you're probably in the clear.

This can be very useful…

As you grow in sophistication with the use of your self-directed IRA, you'll discover that it's frequently very helpful to have a trusted third party who can engage in transactions that are beneficial to your IRA…

…and sometimes, non-prohibited family members or step-family members can be just the trusted third party you need.

It's important to understand which members of your family are inherently disqualified persons and which are not. Unfortunately, that's best explained visually rather than in writing. Fortunately, I've made a video that explains this very clearly…

…when you texted IRAGUIDE to 833-212-2112 (normal message & data rates apply) to get the updated version of this guide, I sent you a number of other resources as well, including this video, so be sure to check it out.

Disqualified Person #3 – Related Entities

If you own any businesses, those business are (usually) considered to be a totally separate person from you in the eyes of the law.

But as the owner of that business, your fortunes are (at least partly) tied to the fortunes of that business…

…and from the IRS' point of view, it's probably you pulling the strings of any business you own… totally for your own benefit.

It's for that reason that any businesses you own are also considered a "disqualified person".

The IRS will see the activity of your businesses as, essentially, an alternate version of you.

And since you are disqualified person, so are any businesses you own.

This means you can't pull any shenanigans by trying to use your business as a counter-party in an IRA transaction, or in any other manner.

So don’t even think about trying it.

But this does bring up a natural question…

What About Businesses That You Don’t Own *Entirely*?

This is a real trouble spot.

In their Retirement Plan FAQ’s, the IRS doesn’t actually say that any business that you own in full is a disqualified person…

…the bar is, unfortunately, a bit lower than that:

IRS

(7) a corporation, partnership, trust, or estate of which (or in which) any direct or indirect owner described in (1) through (5) holds 50% or more of any of the following:

- the combined voting power of all classes of stock entitled to vote or the total value of shares of all classes of stock of a corporation;
- the capital interest or profits interest of a partnership; or
- the beneficial interest of a trust or estate;

This seems pretty clear. If you own or control 50% or more of a business, then from the IRS’ point of view, it’s a disqualified person.

That seems fair. If an entity could be controlled by you and serve as your alter ego, then being a disqualified person for your self-directed IRA makes sense.

I get that.

But I've got a major warning for you:

This does not mean that an entity in which you own less than 50% is inherently "safe" for your self-directed IRA.

On the contrary, all it means is that if you own 50% or more of a company, then it's definitely a prohibited transaction for your self-directed IRA to engage with it.

You still could be on the hook for companies in which you own a minority interest.

My proof for that is an unfortunate fellow named Joseph Rollins, who squared off with the IRS in tax court over some activity involving entities in which he owned only 13%.

Rollins lost.

The U.S. Tax Court decided that, despite Rollins' small percentage of ownership, that his influence was sufficient to merit the designation of "disqualified person" for that entity.

Rollins represented himself in court, and maybe it would have turned out differently if he'd had an experienced tax litigator on his side. Furthermore, this case deals with a non-IRA retirement plan, so it's possible this wouldn't apply to IRA's… but it's extremely like it would.

But what that case did was clearly establish the precedent that an entity can be deemed to be a "disqualified person" if you own far less than half of it.

But it goes even farther than that…

Recently, the California CEB (a legal education organization of UCLA – http://ceb.ucla.edu) asked me to teach the legal fundamentals of self-directed IRA's and prohibited transactions to California lawyers.

When I did so, I suggested that there's a different standard to be considered when evaluating whether an entity is a "disqualified person".

I call that standard "Substantial Influence".

That's because, as the Rollins case clearly indicates, it's entirely possible to have far more control over an organization than is indicated by the amount of legal ownership you hold.

For example:

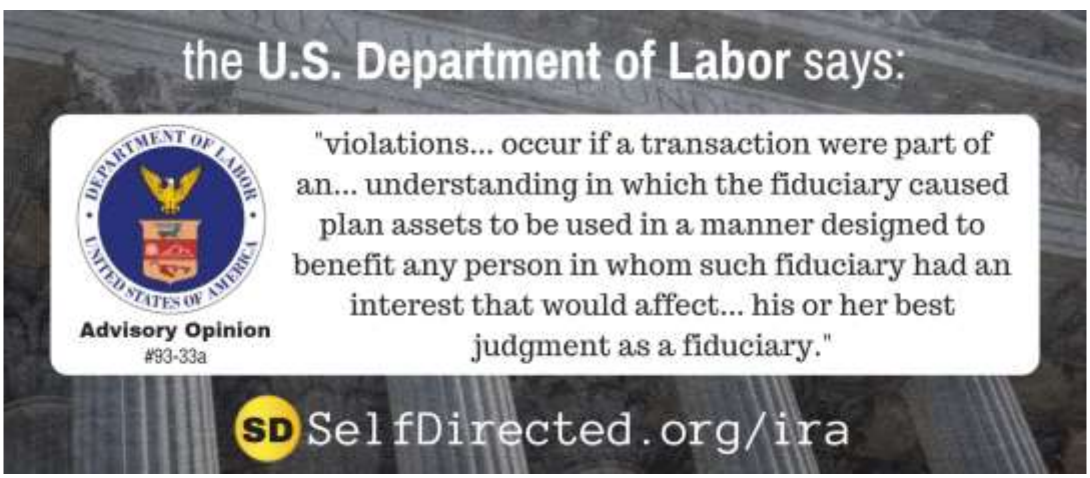
- Members of Boards of Directors
- High-level Executives

- Informal But Highly Influential Advisors

Any one of these types of people may have zero ownership in a business, charity or association, but any one of those people may have actual influence over the entity so substantial as to be a de facto owner.

To be clear, this "Substantial Influence" doctrine is a creation of mine and not one that's cited in case law…

…But it is supported, in large part, by the Department of Labor Advisory Opinion #93-33a which casts a very wide net:



In plain English, this says that if any substantive connection can be made between your IRA and any person (including entities) with whom your IRA transacts business, then your judgement as a fiduciary is affected and the transaction is prohibited.

So, while my “Substantial Influence” doctrine isn’t cited in case law, it’s strongly supported by common sense and by the Department of Labor, and of this I am certain:

You would be very, very wise to consider any entities or organizations over which you have substantial influence to be a disqualified person for purposes of your IRA, even if you have no ownership whatsoever.

Disqualified Person #4 – IRA Account Professionals

This category of disqualified person is rather nebulous.

To clarify, you might ask yourself: “Which people or entities still have an interest in or some level of control or influence over your IRA, even if they’re wholly unrelated to you?”

One obvious answer: Your self-directed IRA provider.

They clearly have an interest in or influence over your IRA. For that reason, they are a disqualified person.

That’s one reason your self-directed IRA custodian will always carefully avoid giving you investment advice: If that advice leads to profit for them, they’ve just destroyed your IRA.

Your SDIRA provider also qualifies as a disqualified person because they “provide services to the plan” (your IRA). Anyone who provides services to your IRA is a disqualified person.

I suspect that this would include companies like appraisers, accountants, etc. But frankly, there’s not a lot of clarity on this issue…

…So as always, the best idea is to consult with an expert SDIRA attorney before engaging in any transaction.

So there you have it… disqualified persons are to your IRA as Kryptonite is to Superman… only worse, because once your IRA interacts with a disqualified person, the damage is done and can’t be fixed.

But while you know that allowing your IRA to interact with a disqualified person is the very definition of a “prohibited transaction”, something you may not know is:

What does it actually mean to commit a prohibited transaction in your self-directed IRA?

The rather damning answer is next…

Get the **latest edition of this guide** now. Text IRAGUIDE to 833-212-2112.

5: Retirement Cataclysm: Prohibited Transactions In Your Self-Directed IRA

You've just learned about the types of assets your IRA isn't allowed to purchase…

…And you've learned about the people and entities that must not be allowed to benefit from, or interact with, your IRA or its assets.

But the real question is:

What actually happens when you commit a prohibited transaction in your IRA?

In short: Financial pain… probably a whole lot of it.

But as with most things connected with IRS rules, there's not just one answer to the question.

In fact, there are 3 different results that could happen based on the specific type of prohibited transaction committed in your account:

- Prohibited Asset Penalties

- Prohibited Transaction Penalties
- Fiduciary/3rd Party Penalties

Being penalized in any of these ways can be devastating…

…But "prohibited transaction penalties" – which are, unfortunately, the most common result – can be a genuine cataclysm for your IRA.

Let's look at each one:

Prohibited Asset Penalties: Mandatory Partial Distribution

Remember the prohibition against investing your IRA in assets like life insurance or collectibles?

If your self-directed IRA is found to have purchased prohibited assets like those, your IRA will be subjected to a "mandatory partial distribution".

("Distribution" is the term used for withdrawal of money or assets from your IRA.)

In the case of prohibited asset purchases, the way it works is simple:

Whatever amount of IRA money you used to purchase the prohibited asset, the IRS will categorize the transaction as if you first withdrew the money from your IRA and then purchased the asset personally and not in your retirement account.

Doesn't sound so bad, does it?

Well, as ESPN's Lee Corso says (way too much):

Not so fast, my friend!

When a distribution is made from your IRA to you (assuming you're below 59 1/2 years of age), you're instantly subjected to the near-certainty of 3 negative results:

- Income Taxes
- Early Withdrawal Penalty
- Interest

Depending on your income tax bracket and the amount of time that's elapsed since your IRA purchased the prohibited transaction, it's entirely plausible that you'll end up with a tax bill of 50% or more of the amount you spent on the prohibited asset.

But here's the kicker…

You must come up with the cash out of your pocket to pay those taxes, penalties and interest, because the "distribution" that the IRS is imputing to you was in the form of your prohibited asset, not cash.

So imagine you unwittingly purchased a piece of artwork in your IRA and paid $50,000 for it…

…When the IRS catches up to that, they're going to tag you for, conservatively, half of that amount - $25,000 – in taxes, penalties and interest.

Bottom line: The stakes are high when you buy a prohibited asset… so don't do it. Ever.

But as bad as it is to be hit with a mandatory partial distribution, that doesn't even vaguely compare to the ultimate enemy of your self-directed IRA, which is…

Prohibited Transaction Penalties: Mandatory Full Distribution

Buying prohibited assets is bad, as you've seen…

…But the real horror happens when you use your account to benefit a disqualified person, such as borrowing money from your own IRA or using your IRA to buy assets from your spouse or children.

When you commit this type of prohibited transaction, then the IRS will hit you with the ultimate penalty:

Mandatory Full Distribution.

The Mandatory Full Distribution is a death sentence for your IRA.

Whereas the mandatory *partial* distribution only causes you to owe taxes, penalties and interest on the portion of your IRA that was used to buy a prohibited asset…

…with a mandatory full distribution, the entire account is forcibly distributed to you, effective as of January 1 of the year you committed the error, and:

It doesn't matter how big or small the size of the errant transaction… your entire IRA is distributed and ceases to be an IRA.

That means that you could have an IRA worth $1,000,000 but if you commit a prohibited transaction with only $200, the entire account will be transformed into a normal non-IRA account…

…and instantly, all of the tax benefits you've already received are due and payable to the IRS, along with devastating penalties and interest.

Let's step through an example so you can see how horrible this particular penalty can be. Assume the following:

- Your IRA: $1,000,000 balance
- Prohibited Transaction: Your IRA reimburses you $200 for expenses
- The IRS takes 5 years to discover the prohibited transaction
- You're assessed for federal & state income taxes on $1,000,000, *easily* reaching 40% total
- You're assessed for an early withdrawal penalty of 10%
- Failure to Pay Penalty reaches to 25%
- At current IRS interest rates of about 4%, 5 years of delay would cost about 21.6%
- So far, you're at 96.6% of your IRA balance, which means…

Your IRA has been wiped out almost entirely.

And that's not the end of the bad news…

In the event that, somehow, your entire IRA balance isn't consumed by taxes, penalties and interest, you've got something else to contend with:

Your IRA has ceased to be an IRA.

This is not a minor issue.

There are some serious practical ramifications of this:

- Your former IRA is no longer protected by the laws that keep IRA's away from creditors
- Your former IRA no longer will be conveyed to your choice of beneficiaries

Point #1 is why you'll soon see that much of the case law that's relevant to IRA's is not happening in tax court, but in bankruptcy court, because:

…if a creditor can prove that you've committed a prohibited transaction in your IRA, then your IRA is wholly unprotected from them.

Committing a prohibited transaction is a big deal. And the really bad news is:

It's almost always completely irreparable.

It's a real financial cataclysm.

This is why you consider it absolutely mandatory to get competent legal advice about your self-directed IRA at every turn…

…Your entire life's savings could be lost in the blink of an eye.

Fiduciary/3rd Party Penalties: Penalty + Unwind

It’s actually possible for a prohibited transaction to be committed in your self-directed IRA without your knowledge or involvement.

Imagine, for example, if you turned over control of your self-directed IRA to a conventional financial advisor who doesn’t know the rules for IRA’s…

The financial advisor directs your self-directed IRA to purchase a piece of real estate at an excellent price from your parents.

Clearly, this is a prohibited transaction, because your parents are a disqualified party for your IRA.

But… the mistake wasn’t actually yours… it was the mistake of a 3rd party fiduciary.

In this case, the penalty is a bit less severe. It has two parts:

- Payment of a 15% penalty of the amount of money involved
- Account must be returned to condition before prohibited transaction occurred. (Property must be sold and capital returned to the account.)

To me, this is amazing…

It appears that any transaction that would be an account-destroying prohibited transaction if I committed the error is something far less severe if committed by a 3rd party.

That is very interesting, and gives rise to a strategy we'll look at in the Definitive Guide to Checkbook IRA's, which you can request by texting CHECKBOOK to 833-212-2112.

But first, we have a big choice to make: What self-directed IRA company will you choose to hold your account?

Let's take a look…

6: Self-Directed IRA Custodians: The Good, The Bad & The Ugly

There are dozens of self-directed IRA providers, and more each year. Some are great, some aren't. If you'd like **a recommendation that takes your needs into consideration**, text the word PROVIDERS to 833-212-2112 and I'll reach out to you.

An IRA custodian is a company that holds title to assets for the benefit of your IRA.

To be a custodian, the company must meet specific financial requirements laid out by federal and state law.

It's kind of like a bank, only you can deposit and withdraw assets other than cash.

No matter what type of IRA you use – captive or self-directed – your choice of custodian is extremely important…

…But that decision is of absolutely central importance if you're using a self-directed IRA, because the custodian is directly involved in so many more "moving parts" of your investment strategy.

It's a big deal to choose the right self-directed IRA custodian. More importantly, it can be devastating to choose the wrong one.

In fact:

The competence of your custodian is a limiting factor for your self-directed IRA.

Fortunately, there are several good self-directed IRA custodians from which you can choose.

In fact, I'll give you access to a full list in just a moment, and if you'd like a personal recommendation, text PROVIDERS to 833-212-2112 and I'll reach out to you.

You Must Use A Custodian To Have An IRA…

If you want to have a self-directed IRA, or an IRA of any type, you must have a "custodian".

It's not optional.

When Congress created the IRA, they chose to make it be a special type of “trust”, and all trusts necessarily have a trustee.

In the case of IRA’s, the trustee is called the “custodian”.

What Is The Job of a Self-Directed IRA Custodian?

From your vantage point as an IRA owner, the primary job of your self-directed IRA custodian is to administer transactions that directly affect the assets or obligations of your IRA.

They have other responsibilities, too… but most of those involve reporting on the activity of your account to the government.

As far as the benefit you receive from your custodian, they simply administer transactions that affect the assets or obligations of your IRA.

That’s it.

- It’s not their job to find deals for you.
- It’s not their job to vet deals for you.
- It’s not their job to give you legal opinions.
- It’s not their job to give you tax advice.

For your purposes, the only thing they're there to do is to administer transactions that affect the assets or obligations of your IRA.

In other words – and I say this with respect to all of my friends and colleagues in the self-directed IRA custodial industry – they're "paper pushers".

That's ok. They're necessary, and I'm grateful for the good ones.

But just to be sure that you understand where your responsibilities and the responsibilities of your custodian diverge, let's consider a hypothetical:

In this hypothetical, you've decided to purchase a piece of real estate in your IRA. You've picked out the property already, and you've got the money in your account.

Is it time for your custodian to spring into action?

Well, no…

Here are a few of the things involved in any real estate transaction that are beyond merely selecting the property:

- Contact the owner
- Negotiate terms
- Create a contract
- Sign the Contract
- Perform Due Diligence

- Sign Closing Documents

Some of these things require your custodian. Some don't… and you need to understand the difference.

Remember: The fundamental rule is that your custodian serves to administer transactions that affect the assets or obligations of your IRA…

…so for each of those activities, let's see if your custodian needs to be involved by asking ourselves: Does this involve the assets or obligations of my IRA?

- **Contact the owner** – Your IRA's assets or obligations will not be affected by speaking to a property owner.

- **Negotiate terms** – Execution of the contract is subject to your IRA's assets, but negotiation of terms does not affect the asset or obligations of your IRA.

- **Create a contract** – Contracts can be drawn up without regard to the assets or obligations of your IRA. (Note that performance of the contract does involve your IRA's assets, and payment of legal fees to create the contract involves your IRA's assets, but those things are not the same as merely creating a contract.)

- **Sign the Contract** – Signing the contract will create an obligation on behalf of your IRA, so this requires the involvement of your custodian.

- **Perform Due Diligence** – NO – Performance of due diligence does not affect the assets or obligations of your IRA. (Payment for performance of due diligence does require the involvement of your custodian.)

- **Sign Closing Documents** – YES – Closing documents will require transfer of assets from your IRA and acceptance of other assets into your IRA, thus your custodian is required.

So here's the thing: It's up to you to do all of the organization and direction to bring the deal to closing. Your SDIRA custodian will not be involved in that…

…but where issues of legal title, conveyance of capital, and legal documents are concerned, that's where your IRA provider must be involved.

Just remember this:

Your self-directed I.R.A. custodian is not:

- A lawyer or legal advisor (even if it's owned or operated by a lawyer)
- A title company
- A property inspector
- A mortgage lender

- A property manager
- A real estate agent
- A contractor
- Or any of the myriad of professionals required in a real estate transaction

Bottom line: Your self-directed I.R.A. provider will only be involved in administrative issues related to the accounts, and they'll only do so at your direction.

It's your job to give your custodian clear instructions. It's their job to follow your instructions.

My Comprehensive List of Self-Directed IRA Companies

The marketplace of available self-directed IRA providers is constantly in flux, with most of the change being attributable to an ever-growing number of options. That's a very good thing.

So in addition to new name being added to the list of potential providers each year, there are also a few self-directed IRA providers who have gone out of business as well as a few others that remain in business but who would nevertheless most wisely be avoided.

Due to this constant state of flux, the most reliable way to provide this information to you is via the official Self-Directed Investor Society IRA Provider List, which you can **receive by texting IRAGUIDE to 833-212-2112** (message/data rates may apply).

Conclusion: Self-Directed IRA's Are Like Dynamite…

At the beginning of this book, we compared self-directed IRAs to dynamite: very powerful, very dangerous.

In the hands of a novice, cavalier, overconfident, and undereducated, dynamite is deadly – as much to the novice as to anyone around them.

In the hands of a skillful user, however, dynamite is artistic, creative, and can change the face of otherwise-immovable mountains.

As you move forward with your self-directed investing efforts, please bear this in mind:

Self-Directed IRAs are a professional-level tool, as are self-directed checkbook IRA LLCs. The combination of these two structures exponentially magnifies the power of both, which can be risky, like dynamite, or life-changing – also like dynamite.

You must have good legal counsel.

You must have sound educational resources.

You must be brave enough and strong enough to ask every question you need answered as many times as necessary to get the information you require.

You must be your own advocate, but you do not have to do it alone.

SDI Society stands with self-directed investors around the country and around the world to provide the best and most up-to-date information on self-directed IRA investing and self-directed investment strategy.

The best is yet to come. We look forward to working with and for you in 2019.