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### The do's and don'ts of investing in real estate with your self-directed IRA.

## **DO NOT PARTICIPATE IN PROHIBITED TRANSACTIONS**

A prohibited transaction is any transaction between your retirement account and a "disqualified" person or entity.

A "disqualified" person is:

- Yourself
- Your lineal descendants (children, grandchildren, etc)
- Your lineal ascendants (parents, grandparents, etc)
- Your spouse, your spouse's lineal descendants, and your spouse's lineal ascendants
- Any entity for which any disqualified party owns 50% or more
- A fiduciary (attorney, CPA, Registered Investment Advisor (RIA), Certified Financial Planner (CFP), etc.)

The term "prohibited transaction" includes any direct or indirect:

- Sale, exchange, or leasing of any property between your retirement account and a disqualified person.  
*For example: You cannot personally guarantee a loan for a real estate purchase by your retirement account.*
- Lending of money or other extension of credit between your retirement account and a disqualified person.  
*For example: You cannot loan money from your retirement account to your child.*
- Furnishing of goods, services, or facilities between your retirement account and a disqualified person.  
*For example: You cannot personally make an improvement to a rental property held by your retirement account.*
- Transfer or use of the income or assets of your retirement account by or for the benefit of a disqualified person.  
*For example: You may not stay in a vacation property that is owned by your retirement account.*

An act by a disqualified person who is a fiduciary whereby the fiduciary deals with the income or the assets of your retirement account in his own interest or for his own account.  
*For example: You cannot loan money from your retirement account to your CPA.*

- Receipt of any consideration by a disqualified person, who is a fiduciary from any party dealing with your retirement account, in connection with a transaction involving the income or assets of your retirement account.  
*For example: You cannot pay yourself any income from profits generated from the rental property held by your retirement account.*

Participating in a prohibited transaction can result in very large penalties, including the full distribution of your account as income, and if you are under age 59 ½ an additional 10% tax penalty. It is your responsibility to understand prohibited transactions and their implications. For more information about prohibited transactions, please refer to *IRS PUBLICATION 590*.

## **DO PAY PROPERTY TAX AND OTHER PROPERTY-RELATED EXPENSES USING YOUR IRA**

Using non-IRA (personal) money to pay for property tax payments or other expenses is a Prohibited Transaction. Because any property held within your IRA is owned by the IRA, all property tax payments must be paid out of your IRA. This also applies to other property-related expenses like utility bills, homeowners' association fees, repair bills, contractor bills (for property improvement), etc. All of these bills and expenses must be paid out of your IRA.

To pay a property tax bill or other expense, send a copy of the bill along with an Expense Payment Request form to IRA Services Trust Company. It takes us 3-5 business days to process a payment, so make sure to submit your request in a timely manner.

## **DO PROVIDE ANNUAL PROPERTY VALUATIONS**

It is your responsibility to provide IRA Services Trust Company with a valuation of your real estate property at least once a year. As a courtesy, IRA Services Trust Company will contact you during the last calendar quarter of each year to request an updated fair market value.

Or, you may complete our Real Estate Valuation form to report the fair market value. A valuation document proving the source of the fair market value must be attached to the form. Acceptable valuation documents are: (1) A letter or other document signed by a real estate professional specifying the current fair market value, (2) Most recent tax assessment notice or tax bill, if such assessment represents the fair market value, or (3) A certified appraisal provided by a licensed appraiser.