The Trillion-Dollar Secret

A TSD IRA E-book

Everything you should know about this phenomenal IRA investment tool.

Presented By Truly Self Directed and Affiliates

What do they know that you don’t?
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Introduction

You are about to learn the truth about a multi-trillion-dollar industry that has been a well-kept secret for over three decades. Banks, investment firms, annuity companies and Wall Street conglomerates have all been happy to share the wealth amongst themselves, keeping this secret where it belongs, hidden in plain daylight. Over the decades, a common misconception grew that your retirement savings must be invested within this select group of financial elites.

But they won’t ever openly tell you the truth.

This is your money and can legally be invested in the way you want!

Less than 5% of Americans are taking advantage of this phenomenal investment vehicle, and that’s the way they want it to stay.

This is not a grey area or a tax loophole dreamt up by some pioneer in tax evasive strategies. This is a legal option that was given to the American people by Congress when they enacted the Employee Retirement Income Security Act (ERISA).

Many investors will spend tens of thousands of dollars in expert advice, trying to find tax breaks and strategies to defer their gains and keep their money for themselves. Most tax attorneys, CPAs and even ERISA attorneys are in the dark about this strategy because it isn’t taught in universities and it isn’t learned in the workplace. However, this is not a new retirement vehicle; it has been openly practiced since before the Roth IRA was even an option to the
public. In the past it was only the savviest investors who benefited from the iron-clad asset protection, liquid flexibility and tax-free growth offered by this vehicle, and they weren’t about to tell the competition.

**But we will!**

This exclusive e-book will show you how you can *truly* accomplish freedom, flexibility and control over your retirement without taking away its tax advantage and protection but instead, strengthening these benefits.

Who has mastered the board to keep you in check? Do you want to keep playing or are you ready to change the game?
The Secret

Only the top 5% of American households have an annual income over $166,000 (2010 U.S. Census). Less than %1 of Americans hold the majority of the wealth. From 1979 to today, the margin of wealth is becoming increasingly more concentrated to a small group of people. In 2007 a Harvard University study reported: “While aggregate household net wealth grew from $25.9 trillion in 1995 to $50.1 trillion in 2004, nearly 90% of the net gains occurred only among the top quartile of households in the wealth distribution.” The gap between the top 1% and everyone else hasn’t been this bad since the Roaring Twenties (right before The Great Depression).

Perhaps most disconcerting is the fact that the vast majority of Americans don’t realize just how uneven the distribution of wealth really is:

WHAT AMERICANS THINK IT IS

WHAT IT REALLY IS

Source: Michael I. Norton, Harvard Business School; Dan Ariely, Duke University
Are they profiting off of your hard work and funneling your retirement into their private bank accounts? Absolutely!

**Provisions have been put in place that will take losses from your retirement before they lose their profits!** But can you blame them?

There’s an old saying that “a fool and his gold are soon parted”. It has also been said by economists that if you take from the wealthy and redistribute money evenly, it will end up back where it started within 2 years. So don’t be an angry fool – there are enough of those to go around. Learn the tricks of the trade and change the game. The best way to redistribute the wealth is organically, not through government bureaucracies.
What Can You Do?

ERISA gives individuals the option to move their retirement funds into an Individual Retirement Account (IRA) housed by specific financial institutions (custodians). These custodians may have their own in-house rules, but in general, the regulations for IRAs are exclusive, not inclusive, regarding allowable investments and transactions. In other words, IRAs don’t have a long list of allowable investments, but instead only a short list of disallowed investments. Congress created the law that way to allow your IRA the freedom to evolve in the ever-changing world it lives in.

“The type of investments that may be held in an IRA is limited only with respect to insurance contracts, under 408(a)(3), and with respect to certain collectibles, under section 408(m)(1)”

IRS Field Service Advice, April 2001

Examples of Investments that you may not know of include:

- Residential Real Estate
- Commercial Real Estate
- Deeds/Mortgages
- Mortgage and Loan Pools
- Private Notes and Loans
- Private Placements
- Limited Liability Companies
- Partnerships
- Foreign Real Estate
- Offshore Investments
- Foreign Currency

- Stocks, Bonds, Mutual Funds
- Domain Names
- Raw Land
- Real Estate Options
- Stock Options
- Futures Contracts
- Commercial Paper
- Tax Certificates
- Foreclosure Property
- Gold, Silver and Palladium
- Etc…
Did you ask your financial advisor about alternative investments?

If so, they may have told you that it cannot be done. What you are not being told is that you can make alternative investments – just not under your current platform. Think about it: why would your broker tell you how to get around him? Or better yet, why would his boss even tell him about these options?

See what the IRS has published on their website about the restrictions that aren’t of their own, but of your own broker:

“Finally, IRA trustees are permitted to impose additional restrictions on investments. For example, because of administrative burdens, many IRA trustees do not permit IRA owners to invest IRA funds in real estate. IRA law does not prohibit investing in real estate but trustees are not required to offer real estate as an option.”

www.irs.gov - Retirement plans FAQ’s regarding IRAs
What Can’t You Do?

The more you research this subject, the more you will find that the tax code allows an open field of flexibility with Individual Retirement Accounts and in fact, it’s not the government that frowns upon self-directed IRAs – it’s the investment firms that want to stay in control of your money. After all, with a TSD IRA, it’s you who is making the greater returns, not them.

_Self-directed IRAs, the kind that let you pick investments like candy, are quite the rage these days, growing at an annual rate of 25%, compared to 8% for the overall IRA market._

_Forbes - 2006_

The most common question has always been, “can I invest in real estate with my IRA. The answer, of course, is yes.

_“Real estate has always been permitted in IRAs, but few people seemed to know about this option- until the stock market began to decline. Financial institutions, meanwhile, had little incentive to recommend something other than stocks, bonds or mutual funds.”_

_New York Times - 2005_
Prohibited Investments

ERISA lists the investment limitations of an IRA in IRC Section 408. An IRA cannot invest in life insurance contracts or collectibles, as listed below:

- Any work of art
- Any alcoholic beverage
- Any rug or antique
- Any gem and certain metals
- Any stamp and certain coins

Note: “Collectible metals” generally refers to jewelry, not precious metal commodities, and “collectible coins” are generally special issues, such as those you may find on infomercials, not investment-grade precious-metal bullion coins. These exceptions are covered in Title 26 Section 408(m)(3)(A) and Title 31 Section 5112(k).

Prohibited Transactions

IRA prohibited transactions are listed in IRC Section 4975; prohibited transactions are any direct or indirect:

(A) sale or exchange, or leasing, of any property between a plan and a disqualified person;

(B) lending of money or other extension of credit between a plan and a disqualified person;

(C) furnishing of goods, services, or facilities between a plan and a disqualified person;

(D) transfer to, or use by or for the benefit of, a disqualified person of the income or assets of a plan;
act by a disqualified person who is a fiduciary whereby he deals with the income or assets of a plan in his own interests or for his own account; or

receipt of any consideration for his own personal account by any disqualified person who is a fiduciary from any party dealing with the plan in connection with a transaction involving the income or assets of the plan.

A disqualified person is the IRA participant, the spouse of the participant, ascendants of the participant (mother/father), descendants of the participant (daughter/son), spouses of the participant’s descendants (son/daughter’s spouse) and fiduciaries of the plan (custodian/trustee, TSD IRA Manager).

What does all that mean in plain English? A disqualified person can’t:

- Personally purchase an asset from or sell an asset to your IRA.
- Extend credit to your IRA or take an extension of credit from the IRA (loan to the plan, borrow from the plan or use it as collateral).
- Extend goods, services or facilities to the IRA or use the assets of the IRA for your own benefit.

Also, a fiduciary (one who controls 10% or more of the IRA) cannot deal with the IRA for their own benefit or have receipt for consideration where they were involved in a transaction with the plan.

In a nutshell, Congress gives IRAs a tax advantage for a reason; they don’t want individuals circumventing that reason and still receiving this tax advantage.
There are some exemptions and exceptions to these prohibited transactions, but they must be handled very carefully and usually require approval from the Department of Labor.

**Example:**

**Many individuals are borrowing money from their 401(k) plans and doing it with approval from the government, this is done under an approved plan document with specific provisions in the plan.**

**The tax code never states that you can’t be in full control of your IRA.**

It only states that you can’t go out and buy yourself a vacation property on the beach, a diamond ring for your spouse or a Van Gogh painting for “investment purposes”. Every transaction or decision you make on behalf of your IRA should be in the best interest of your IRA – it’s that simple. Imagine you aren’t dealing with your IRA but instead your friend’s estate for the benefit of his survived minor children. This may help paint a better picture of your capacity in a TSD IRA. It’s amazing the endless possibilities that few will ever know are even an option.

You may be saying to yourself, “OK, the horse is dead already, I know I can direct my own investments, but how?”

“**Self-directed IRAs,” which use a limited liability company structure, enable investors to take control of their retirement funds as well as diversify by investing outside of Wall Street.**”

*Forbes – 2011*
How Does a TSD IRA Work?

A TSD IRA is a unique hybrid that utilizes an IRA that is housed at a “self-directed” custodian and invested into a specialized legal structure known as an IRA LLC. A TSD IRA is a vehicle that will help eliminate this custodian’s bureaucracy and red tape and minimize their fees while still utilizing their strengths.

Here is how it works:

1. Your retirement account is moved to a self-directed custodian who allows alternative investment vehicles that pass their compliance policies.

2. We create a **customized** LLC entity and submit it to the custodian as a private investment strategy. This LLC has many provisions that are put into place to protect you up front and in the future. We cannot stress enough that you should use a professional to create this structure; otherwise you risk the IRA becoming distributed, taxed and penalized, which defeats the entire purpose of the IRA.

3. A checking account is opened under the name of your IRA LLC.
4. We submit the LLC documents and funding instructions to the custodian’s compliance department for review.

5. A couple of days later your checking account is capitalized and you now have full control.

6. You can direct your investments through a bank account, brokerage account or both.

After you complete the simple step-by-step TSD IRA process, you will have absolute control over this new structure and can direct your retirement funds into any investment you choose (keeping in mind that you still need to abide by IRS rules). Not only do you have the flexibility of cash which allows you to make a wide range of investments including the securities you are familiar with, but also solid asset protection.
Why Use an LLC?

When considering what type of structure to put your IRA into, you must first examine the possibilities:

**C Corporations** are double-taxed entities. When a C Corporation realizes a profit, it has to file with the IRS and pay tax on that profit. The investors of a C Corporation will also receive taxable income as passive investors and are required to pay capital gains tax on their profits. Putting an IRA into this type of corporate structure would take away its tax advantage.

**S Corporations** do not allow retirement plans and other types of trusts to be members, so it’s not even an option for an IRA.

**General Partnerships, Limited Partnerships and Limited Liability Partnerships** must have two or more members because they are, by definition, “partnerships”. Using this type of structure would require your IRA to partner with another individual or entity, which would only add extra restrictions to your abilities and freedoms with your IRA.

**DBA or Doing Business As** will not work because it isn’t technically a separate entity, but instead a name that one is doing business under. This type of arrangement would still require custodial intervention and offer no added protection.
**Limited Liability Companies (LLCs)** are considered “the new kid on the block” in the world of corporate structures. A Limited Liability Company is a hybrid between protected corporations and pass-through partnerships. An LLC can be member-managed or manager-managed; it can be a single-member entity or it can be owned by multiple members. Either way, LLCs must be respected as separate entities from their members. LLCs can choose to be taxed like partnerships (flow-through to the members) or like corporations (double-taxed). All these combinations make the LLC structure a perfect vehicle to combine with an IRA.
The Owner of the LLC Is the IRA.

Single member LLCs can be classified as disregarded entities for tax filing purposes. When creating the LLC structure this option can be chosen; therefore, the LLC won’t have to file for or pay any taxes on gains. Instead, it is the LLC’s member who is liable for the LLC’s tax responsibilities, just as if they earned the money themselves. Because your IRA is the owner, and there is a custodian in place who reports to the IRS on behalf of your IRA, you will not be required to file or pay any taxes on your LLC’s profits.

You are the manager for your IRA LLC, not a member; this gives you full control and authority over your IRA without taking a distribution or added liabilities. Your capacity as manager for your LLC is to research, make and maintain investments and investment holdings for your IRA LLC. Keep in mind, however, that IRAs do have unrelated business taxable income if they participate in an unrelated trade or business or if they realize profits off of debt financing. These transactions are not prohibited, but are taxable.
Asset Protection

Another benefit to having an IRA LLC is the iron-clad asset protection. An IRA is a federally protected trust, so creditors or litigators coming after you cannot go after your IRA. Additionally, members of an LLC (in this case, your IRA) are protected from creditors and litigators going after the LLC. It is very difficult and cumbersome to penetrate the integrity of the IRA LLC structure. Even if someone were to sue your IRA LLC and get a favorable ruling from the courts, it would still be difficult for them to collect any money. It is different in every state, but most state statutes do not allow judgment or lien holders any control or rights to assets under an LLC; instead they are given rights to distributions from the LLC. Because an IRA LLC is setup as a retirement vehicle, you are not even required to take distributions until you are 70 ½ (not at all if it is a Roth IRA). Meanwhile, you can make investments as you please, even if it is a loan to your brother… Depending on the state and the exact situation, one might even be able to pass the tax liability over to a creditor who holds a charging order against your LLC.
Why Not Just Use a Custodian?

Most individuals will put money aside for a tax deduction or benefits at work, and that’s understandable; you have a 9-to-5 job and may want to leave your retirement planning to the “pros”. Because the money is managed by a traditional custodian, administrator or brokerage firm, and the only interaction by the investor is reviewing an annual statement, this type of account is in no way self-directed. For those of you who want to hold your retirement a little closer, you will need what we call a “self-directed” IRA custodian.

Millions of Americans have spent their whole life saving for retirement, only to realize once they turn 65 and are ready to retire that they would have been better off leaving those savings under the mattress.

The majority of IRA custodians want rights to control your money, rights to nickel-and-dime your money or rights to profit off of your money. Even the custodians who do allow you to self-direct your own IRA will have a list of investments they allow (usually in securities) and restrictions on how those investments must be made and maintained. A typical scenario with this type of custodian would be:

✓ An individual puts money aside for retirement savings with a custodian, administrator or brokerage firm that empowers the individual to make investments that are allowable by the custodian’s compliance department.

✓ In most cases the individual can trade stocks, bonds and mutual funds from a select inventory under the custodian, administrator or broker.
Depending on the type of IRA the individual has structured, gains can be realized tax-deferred or tax-exempt.

Contribution limits vary depending on age, employment status and adjusted gross income.

Less than 10% of IRA owners have sought out how to exercise their rights under ERISA a step further and found their way to the **Self-Directed IRA Custodian (SD Custodian)**.

SD Custodians generally make their money by charging fees and not off your investments, so unlike the traditional custodians, it isn’t feasible for them to put a building on every corner in America. We use the term SD Custodian to identify a type of qualified institution that allows its participants the freedom to pick their own investments out of the world of possibilities rather than being restricted to securities investments. An SD Custodian is the first step to moving your IRA from Wall Street to Main Street.

An SD Custodian definitely has their role and may be all you need for certain type of investments. For example, if you want to buy a piece of land and hold it for 10 years, an SD Custodian would suffice. For many investors, however, this type of custodian has flaws that shouldn’t be overlooked. If you are making one or more investments, investments in various industries or investments in the type of industry that requires flexibility you will soon find that you need to take another step towards “true” financial freedom.
One easily overlooked problem in the SD Industry is that assets under an IRA are required to be registered under the name of the IRA Custodian for your benefit (fbo). This isn’t a problem in securities but for all other investments can be a huge problem.

Imagine you bought your house and operate under **XYZ Company FBO your name** and your neighbor operates under **XYZ Company FBO his name**. If your neighbor is getting foreclosed on, it could be difficult for you to get a home equity loan; if your neighbor’s house has a lien on it you may have problems with your title insurance; if your neighbor owes property taxes you may not be able to participate in a tax auction as an investor; and if your neighbor is getting sued you may find yourself with legal fees to protect your property.

These aren’t just hypothetical – these scenarios have actually happened to real people, costing them thousands in lost time, lost opportunity, legal fees, etc. Imagine you have over 30,000 + neighbors making investments! Under this logic the larger SD Custodians aren’t always the best ones to go with; instead you will want to hunt down a smaller SD Custodian and hope nobody else finds them. This is a growing problem that needs to be addressed with SD Custodians and we have a solution to the problem. But this is not the only issue with an SD Custodian.

The extent of bureaucracy necessary for investments is at the custodian’s discretion. Custodians who offer this type of plan have a fee for everything; following is a small list of fees and certain bureaucracy you can expect:
Fees Fees Fees

- Annual Account Fees
- Fees to buy
- Fees to sell
- Check Fees
- Wire Fees
- Fees to pay expenses
- Fees per Asset held
- Entrance Fees
- Exit Fees
- Expedite Fees
- Registration Fees
- Re-Registration Fees
- Fees to Deliver a Document
- Fees to look at a Document (research)

And, of course, there’s...

Red Tape

- Waiting for investment approval
- Waiting for expense approval
- Waiting for a custodian to process paperwork
- Waiting for custodian to cut a check
- Investment Limitation
- Unnecessary verbiage on contracts
- Unnecessary Appraisals
- Low return on cash account
- Investment Limitations
- Restrictions on securities brokers
- Restrictions on legal or tax professionals
- Attorney Opinion Letter requirements
- High fees on “out of the box” or foreign investments
- Inability to make various decisions
- Asset Evaluations

The list goes on...
“Truly” Self-Directed

With a TSD IRA you don’t have added restrictions from a company who is in business to manage your funds. The only restrictions to a TSD IRA are the restrictions to IRAs in general. It is that simple, don’t do any self dealing, buy life insurance or collectibles and you have nothing to worry about. As with any complex structure however you will want to have support from a specialist for when a question or issue arises.

With a TSD IRA you can expect:

**Limitless Investment Options**

Here is a list of some of the possibilities:

- Residential Real Estate
- Commercial Real Estate
- Deeds/Mortgages
- Mortgage and Loan Pools
- Private Notes and Loans
- Private Placements
- Limited Liability Companies
- Partnerships
- Foreign Real Estate
- Offshore Investments
- Foreign Currency
- Stocks, Bonds, Mutual Funds
- Domain Names
- Raw Land
- Real Estate Options
- Stock Options
- Futures Contracts
- Commercial Paper
- Tax Certificates
- Foreclosure Property
- Gold, Silver and Palladium
- Etc…
No Red Tape

- Checkbook control
- Minimal custodian fees
- Buy and sell what you want when you want
- Hire specialists when needed – who you want when you want
- Use your own expertise
- Grow your retirement, not theirs
Case Law

After just a little research, most advisors will accept the fact that you can make alternative investments such as real estate, loans, private placements, in your IRA, but the concept of a TSD IRA may be hard to accept.

However, the TSD IRA concept isn’t frowned upon, risky or even new. The case law that proves the strong integrity of the TSD IRA concept is *Swanson v. Commissioner*.

James Swanson owned a majority of shares in a U.S. Corporation and his 3 children owned the remainder of the U.S. Corporation. Swanson formed a new Domestic International Sales Corporation (DISC) where he was the director of the company and the members were Swanson’s IRA and the IRAs of his 3 children, each owning 25% of the DISC.

The company arranged commissions on foreign sales for the U.S. Corporation making the normally taxed income of the DISC now tax-deferred through the IRAs.

The IRS initially challenged this based on the conception that he had violated IRC Section 4975 because Swanson dealt with the assets of the plan in his own interest.

The IRS, realizing they weren’t justified in their allegations, then tried to withdraw their case.
By this time Swanson had suffered extensive legal fees and demanded the IRS to compensate him for his trouble. The IRS of course, refused to pay Swanson for his legal fees, therefore Swanson was forced to escalate his demands to the Tax Court.

The tax court came to two conclusions,

1. Swanson’s TSD IRA structure was not illegal.
2. The IRS had to pay Swanson a reasonable amount of his legal fees.

There have been a number of decisive rulings, statements and opinions by the Department of Labor, IRS and Tax Court all in favor of the TSD IRA concept; this is just one of them. In fact, shortly after the Swanson case a field service memorandum was issued within the IRS, advising employees not to pursue Swanson-like structures.
Case Studies

To help you better understand some of the complex situations that we have seen with our own eyes we are giving you some real-life examples where individuals had problems that could not have been foreseen from a new IRA investor. To protect the innocent we have changed the names.

**Susan** had an IRA with one of the larger SD custodians and had purchased a piece of land from one of her business partners. A few years earlier Susan had personally owned this piece of land and sold it to her partner. When the partner was getting rid of the land (for a profit, mind you) Susan naturally was informed about the sale. She decided that even at the higher price this would be a good investment for her IRA.

Through routine internal audit procedures Susan’s custodian realized that she had previously owned the property and considered this to be an indirect sale of property between a plan and a disqualified person. Susan was fully prepared to present her argument and show that this was a legitimate transaction and was never intended to indirectly make a sale from herself to her IRA. Susan’s custodian was not interested in Susan’s case; instead they issued her a 1099R and informed the IRS she had taken an early distribution for her IRA. Instead of spending thousands of dollars to defend herself, Susan was forced to pay distribution taxes and penalties on top of losing her tax advantages for the future sale of the property. When Susan decided to self direct her Roth IRA, she wised up and created a TSD IRA. If she had made her original purchase under the TSD IRA structure the property would still be under her IRA today.
Bob used our company to create an IRA LLC. Bob rolled his money from a 401(k) with a local bank and ultimately used the same bank to hold his LLC checking account at. Bob invested the funds into a rental property. Someone at Bob’s bank realized that his qualified funds had left the bank in the form of a 401(k) and came back in the form of an LLC and informed the IRS that he had taken a distribution from his 401(k). A year later, Bob received a letter from the IRS informing him that he owed taxes and penalties for the distribution of his 401(k).

Bob contacted our office immediately. We drafted a letter quoting the relevant tax code on 60 day rollovers, provided supporting documentation that the qualified funds went directly from one custodian to the other and he was in compliance with the 60 day rollover rules. We also stated that Bob’s LLC investment was an approved transaction through his new custodian and by purchasing property under his LLC he had not violated the prohibited transaction rules under section 4975. Bob’s CPA reviewed the letter for 30 minutes and forwarded it to the IRS. Bob never heard from the IRS again and since then has changed banks.

Without the proper support Bob would have been faced with thousands of dollars in legal fees defending himself and may have eventually lost the tax advantages of his IRA LLC on top of the distribution taxes and penalties.
Steve created his self-directed IRA with a popular SD custodian that he felt confident in; let’s call them XYZ Trust Company. Steve’s intention was to buy tax deeds at the courthouse, on top of other investment strategies.

Steve had a check written from his custodian to buy a list of upcoming property sales. He performed extensive due diligence on these properties and decided which ones he would like to bid on. Because this is a bidding environment, Steve had XYZ Trust Company cut him a number of cashier’s checks, some in increments of 1, 5, 10 and 20 thousand dollars. Steve paid a check fee for each of these checks. When Steve signed up to bid on these properties he had to do it under the name of “XYZ Trust Company fbo Steve…”

Steve was informed by the local taxing authority that he was ineligible for participation because he was in default for property taxes. After researching, Steve found that XYZ Custodian did in fact have another client in his local area who registered his property under “XYZ Trust Company fbo (other client)”.

Steve contacted his custodian and they were aware of the issue and at the current time could only offer an explanation letter to Steve and the taxing authority. This was not sufficient enough for the taxing authority so Steve decided to retain an attorney and have a $5,000 dollar retainer check cut from his SD IRA.

Steve’s attorney, after countless hours of work, was able to find a fix to the solution but informed Steve that this issue may arise again when he goes to buy title insurance. Steve contacted our office, set up a TSD IRA and has never looked back.
Frequently Asked Questions

There are probably hundreds of questions we could have added here, but like the title states, these are the ones that are most frequently asked and give the best general understanding of the truly self-directed IRA.

*If your question is not answered here please don’t hesitate to contact us; an advisor can help answer any questions or concerns you have.*

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Can an individual contribute to a traditional IRA if he or she has other retirement plans?

Yes.

Individuals can contribute to a traditional IRA whether or not they are covered by another retirement plan. However, they may not be able to deduct all of their contributions if they or their spouses are covered by an employer sponsored retirement plan.

[Note that contributions to a Roth IRA are not deductible and income limits apply.] See [Publication 590](#) for further information.
Can I partner with my spouses IRA or another disqualified person within the LLC?

Yes.

In Swanson vs. Commissioner Swanson’s IRA was partnered with the IRAs of his 3 children and Swanson was the director of the company (Swanson won the case).

However, if you are going to make your LLC owned by multiple members (whether they are disqualified or not), the TSD IRA will become disqualified for any additional IRA capitalization as where an LLC owned 100% by one IRA becomes a part of the IRA and you are allowed to make annual contributions to the entity (see See DOL Advisory Opinions 97-23A and 2005-03A).

How can an individual convert a traditional IRA to a Roth IRA?

A traditional IRA can be converted to a Roth IRA by:

**Rollover** - A distribution from a traditional IRA can be contributed to a Roth IRA within 60 days after distribution.
**Trustee-to-trustee transfer** - The financial institution holding the traditional IRA assets will provide directions on how to transfer those assets to a Roth IRA with another financial institution.

**Same trustee transfer** - As with the trustee-to-trustee transfer, the financial institution holding the traditional IRA assets will provide directions on how to transfer those assets to a Roth IRA, this is usually a simple IRA conversion form that requires your signature. In this case, things should be simpler because the transfer occurs within the same financial institution.

A conversion results in taxation of any untaxed amounts in the traditional IRA. Also, the conversion is reported on Form 8606, *Nondeductible IRAs*.

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**What is the difference between buying real estate or any other investment for me or for my TSD IRA?**

When you make an investment with your TSD IRA you will want to make sure that the asset is titled in the name of your entity.

Make sure all the expenses come from the TSD IRA and all the revenue flows to the TSD IRA.

Also, you will always want to make decisions in the best interest of the TSD IRA because once you become manager of your IRA, you become a fiduciary. One tactic to help you get on the right thinking track would be to imagine you are
managing your deceased friends estate for his/her children, instead of your IRA.

**Can my TSD IRA purchase an interest in a Subchapter S Corporation?**

No.

According to IRS Letter Ruling 199929029, April 27, 1999 IRAs are not qualified as investors in Subchapter S Corporations.

**Why haven’t I heard about this before?**

Since the Employee Retirement Income Security Act (ERISA) was passed in 1974, the big lobbyists for IRAs have been banks and investment firms. Since then there has been a common misconception that IRAs are only allowed to be invested in stocks, bonds, mutual funds, annuities and CD’s. Nothing could be farther from the truth.

The main reason you might not have heard of this type of retirement plan is that none of these traditional custodians have an incentive to allow you to make your own investment decisions outside of stocks bonds mutual funds, annuities and CD’s.
Since the downfall of the stock market in 2000 it has been individuals who have taken the initiative and built a market for “truly” self-directed IRAs.

What types of Retirement Accounts can be structured as a TSD IRA?

As a rule of thumb, you want to make sure that your retirement plan can be rolled over or transferred to another custodian before moving forward in getting a TSD IRA. Once you have established that you are eligible, most types of retirement plans can be converted into a TSD IRA, here is a list of the most popular:

- Traditional IRA
- Roth IRA
- SEP IRA
- SIMPLE IRA
- Thrift Savings Plan
- 401(k)
- 403(b)
- 457

How do I ensure my money will be safe?

Before your money is deposited in a local FDIC-insured bank account of your choice, it will be moved to a registered qualified IRA custodian.
To be a qualified IRA custodian the institution must meet stringent state and federal requirements (explained in IRC Section 408) and have adequate reserves.

Your funds will be kept in a trust account for a short period of time (usually less than a week) before the funds are transferred into an LLC checking account of your choosing. Even if the trust company or bank goes out of business, your money will always be in your possession and the LLC can be registered as an in-kind transfer to another custodian.

My broker, CPA and attorney tell me this is illegal or frowned upon by the IRS, are they correct?

Your broker will naturally show skepticism when they realize that you will have to move your funds outside of their management. We have heard every excuse in the book from brokers:

*If you set this up your IRA will be taxed.*

Not true, the funds are transferred from custodian to custodian ensuring that the IRA is still qualified and there are no taxes due on the conversion.

*This company will run off with your money.*

Not true, most companies that structure a TSD IRA will never even have access to your funds but make their money by charging a set up fee anywhere between $2,000-$5,000.
Once again, the funds are transferred to a Trust Company or Bank, the likelihood that your life savings will be stolen is the likelihood that your local bank will steal it.

*Why would you invest in real estate with an IRA when the gains would normally be taxed at capital gains tax but in an IRA they will eventually be taxed as regular income tax?*

This argument is pretty much stating that you shouldn’t have an IRA altogether because stocks bonds and mutual funds will be taxed as capital gains outside of an IRA as well.

The idea behind IRAs is that when you retire and start taking distributions, your mortgage is paid for, you aren’t in debt and you need less money to live on, putting you in a lower tax bracket. Roth IRAs aren’t taxed at all when you take distributions.

Most everything your broker will tell you is an attempt to keep your assets under their management and this becomes more and more obvious the more they talk.

Your CPA is most likely in business to file taxes. Your local attorney doesn’t specialize in TSD IRAs. These professionals usually won’t want to take the time and effort to study the tax code in depth and give you a straightforward answer for free.

To put you off you might be told...

… “That’s illegal”

… “Technically you can but it is frowned upon”
... “This is a loophole and the laws will change”
...

If you are told this is illegal, simply ask your professional where *exactly* that is stated in the tax code. They won’t find it. Actually, ask them where it is stated that you can buy securities. They won’t find that either.

To tell you that this type of structure is frowned upon by the IRS or any other government is completely wrong. Nowhere is it ever indicated that the government doesn’t want you managing your own retirement account. To the contrary, there are many indications that the relevant arms of government are completely aware of this type of strategy and don’t “frown” upon it at all. There are other strategies that are more hidden than the TSD IRA that are being openly scrutinized, if the TSD IRA were in the same category it would be publicly stated.

To say that this is a loophole or grey area in the law is just a clear misunderstanding of the terms loophole or grey area. The definition of loophole is “a means or opportunity of evading a rule, law, etc.” The TSD IRA structure is directly in line with the purpose of an IRA and is in no way a strategy to evade the rules in the tax code. Grey areas are usually grey because the situation has not yet been vetted through the legal system. The IRA LLC structure has clearly been vetted through the courts and relevant authorities and is in no way a grey area. Unless the professionals telling you this are senators or high level officials, they can’t tell you with any certainty how the laws may change. If the rules for IRAs were to change then now would be the right time to act.
Once again, the tax code has always granted these abilities, but most custodians have a vested interest in controlling your money and distributing the profits into their pockets, not yours.

Can I purchase an asset that I currently own?

No.

This is a prohibited transaction. If this is something you really want to do you might get an exemption from the Department of Labor allowing you to make this investment. Private letter rulings and exemptions can be tedious, costly and might not be approved.

What if I need to borrow money to buy real estate?

Because you cannot extend credit to your IRA, and your IRA cannot be used as security. It makes borrowing money a little more difficult, however, for us this isn’t a big problem.

As long as you get a loan that doesn’t take recourse against you or your IRA, you aren’t making a prohibited transaction. What most individuals do is use a property owned by the TSD IRA as collateral, as long as the loan-to-value ratio meets the right requirements, most banks will loan money to the TSD IRA. A
good TSD IRA advisor will have relationships in place to help you facilitate this transaction.

Gain off of debt financing may be subject to Unrelated Business Income Tax (UBIT) and you would most likely want to hire a tax professional to assist in filing a return.

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**Do I need to ask permission to make an investment?**

No.

You are the manager of your TSD IRA and all decisions are made by you, when you want to make an investment. You write a check, use your debit card, wire funds, etc... All contracts can be signed by you.

If you want to hire another decision maker you can also do that. You will need to report to the custodian on an annual basis. Most custodians don’t have any formal documents to make this reporting, a simple letter will suffice. We recommend keeping a balance sheet for your entity and sending that to the custodian annually.
Conclusion

We hope this e-book helped open your eyes to some of the possibilities that most will never even know. Don’t be in the 95% of Americans who never build true wealth; you have the power to choose your financial future. Whether you want to use your IRA as an investment tool or your goal is to build up your nest egg, we can show you how.

Give us a call and an advisor can help you gain freedom and control over your financial destiny!