

Advanta | IRA



# Self-Directed IRAs Made Easy

# About Advanta IRA

As the nation's premier self-directed individual retirement arrangement (IRA) administrator, the regional offices of Advanta IRA have over 25 years of experience and success in our industry.

Advanta IRA is comprised of a group of elite self-directed IRA administrators serving clients nationwide. While maintaining separate entities, we work and market ourselves together to offer clients exceptional experience and knowledge that is paramount in administering self-directed IRAs.

Advanta IRA ensures all elements of the facilitation of your account are performed properly and in compliance with Internal Revenue Service (IRS) rules and regulations. We file reports on your behalf, issue statements, and help you follow contribution limits and permissible transaction guidelines. You are able to focus on the more important task of identifying promising investments to add to your portfolio.



**Advanta IRA has over 25 years of experience and success in our industry.**

# Why Choose Advanta IRA?

- ▶ With over \$700 million in client assets and the full limits of Federal Deposit Insurance Corporation (FDIC) protection, we give you the peace of mind you desire in choosing an administrator for your self-directed accounts.
- ▶ We make no commission. We do not sell investments. We work at your direction to fully administrate the needs and requirements of investments you choose.
- ▶ We do not give legal, tax or investment advice, but our offices are operated by individuals with backgrounds in the legal and tax fields. Many of our staff members have also achieved the designation of Certified IRA Services Professional (CISP).
- ▶ Advanta IRA offers cutting-edge educational curriculum designed for all types of investors to learn how self-directed accounts have the potential to build wealth at a faster pace than traditional methods.
- ▶ We deliver the services and possess the expertise you need in order to successfully diversify your retirement portfolio and realize the maximum benefits possible.
- ▶ We are local. We are trusted. Advanta IRA provides our clients with the tools and personal service necessary to confidently invest their retirement funds.

For more information, please visit

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

Or call us anytime with your questions.

Our consultations are always free.

# What Is a Self-Directed IRA?

A self-directed IRA is not a special type of IRA. The term self-directed simply refers to the way the account is administrated and the greater choice of investment options available to the account owner. More conventional retirement accounts involve a third party, such as a broker or other account administrator, who assists in the purchase of various publicly traded assets. Self-directed IRAs are invested solely at the discretion of the owner of that account, who directs the account administrator (such as Advanta IRA) to purchase assets that are outside of the norm when it comes to retirement plans. Investment accounts that can be self-directed include: traditional, Roth, SEP and SIMPLE IRAs, as well as educational and health savings plans.

## Who Should Consider a Self-Directed IRA?

Anyone who wants to take control of his / her retirement investments, or who is unhappy with their current retirement plan returns, should consider a self-directed account. Most typical IRA custodians (like banks and brokerage firms) only allow you to invest in the products they sell. These include more “traditional” investments such as stocks, bonds, and mutual funds. Non-traditional or alternative investments commonly acquired with self-directed IRAs are not widely known because the majority of IRA custodians do not offer these assets as investment options, so they do not promote them.

The IRS permits investments into a wide variety of assets, but each custodian decides which assets it is willing to hold. Advanta IRA does not sell products or offer financial advice, and, therefore, does not limit your investment decisions. In fact, we exist as an IRA administrator to encourage people to take control and self-direct their retirement accounts.

### **Alternative Investments Permitted Within a Self-Directed IRA Include:**

Real estate

Single-member LLCs  
(checkbook IRAs)

Notes and mortgages

Futures and foreign exchange  
(forex) trading

Partnerships / LLCs

Private placements and private stock

Precious metals and more

# The Advantages of Investing with IRA Funds

There are three primary reasons people invest with self-directed IRAs:

## **Alternate source of funding**

When you are considering investments in real estate, private loans, private companies, etc., you may not realize that IRA funds can facilitate those investments. You may simply look to your personal savings accounts to acquire these assets. However, you are allowed to use funds from a self-directed IRA to make these investments and more. By doing so, you may find a potentially large source of additional monies to make these different types of investments.

## **Looking for higher returns**

Most retirement funds (close to 95 percent) are invested in accounts through a brokerage firm or bank, which offers limited investment choices. Most people have been conditioned to think that only securitized investments like stocks, bonds, and mutual funds are the only options for investing their retirement dollars. Individuals who are unsatisfied with the returns these accounts earn often look for alternative investments, leading them to discover the self-directed IRA. Additionally, individuals learn that by using self-directed IRAs, they can invest in other types of assets they possibly understand much better than those offered at more traditional institutions. Investing in what you know and understand can lead to higher returns within the retirement account.

## **Tax-free or tax-deferred growth (time value of money)**

The time value of money simplified is the assumption that at the present time, money is worth more than the same amount will be worth in the future. Why would you want to pay the IRS capital gain taxes after each investment sale when you have the ability through an IRA to pay taxes later? The money you save in taxes can be invested to create even higher wealth. By choosing to invest in alternative assets, an IRA owner can potentially earn greater returns through these assets that may help the IRA grow at a fast pace, resulting in higher account values within a shorter time frame.

# What Plans Are Available for Self-Direction?

## Traditional IRA

A tax-deferred retirement savings plan for individuals. Contributions and earnings are only taxed when distributions are taken. Former employer plans can be directly rolled into a traditional IRA without tax consequences.

## Roth IRA

A retirement savings plan for individuals based on taxed contributions, not tax-deferred contributions. The earnings are tax-free once distributions begin provided the IRA owner is over the age of 59 1/2 and has had a Roth IRA for at least five years.

## Simplified Employee Pension (SEP) IRA

A SEP IRA allows an employer (typically a small business or self-employed individual) to make larger retirement plan contributions into a traditional IRA established in the employee's name.

## Savings Incentive Match Plan for Employees (SIMPLE) IRA

The SIMPLE IRA is available to employers with 100 or fewer employees and allows for both employer and employee contributions, similar to a 401(k) plan.

## Qualified plan

Qualified plans, such as employer 401(k), 403(b), profit sharing plans, or individual 401(k) accounts for the self-employed can be self-directed in many cases.

## Health savings account (HSA)

An HSA is the only type of savings plan that offers three tax advantages: a deduction for contributions, tax-free earnings, and tax-free withdrawals.

## Educational savings account (ESA)

ESAs are savings accounts for your child's (or grandchild's) higher education. The money you put into this account is taxed but the earnings are not taxed.

# What Type of Investments Qualify for a Self-Directed IRA?

## Real estate

An investor can purchase vacant land and residential or commercial property with an IRA. Income (profits from a sale or rental proceeds) flows back to the IRA, tax-deferred. Expenses (such as property taxes, association maintenance dues, etc.) are paid by the IRA. Rehab properties, as well as properties in the foreclosure process, can be purchased as assets in an IRA.

## Notes and mortgages

Many of our clients use their IRAs to lend money to third parties. All loan payments (principal and interest) flow back into the IRA, tax-deferred. The majority of lending we see are safe, secured loans with the property used as collateral. An IRA can also loan money via an unsecured promissory note. Secured notes are backed by collateral, such as property and deeds of trust, providing the lender additional assurance of the return of the loan amount and interest. Unsecured notes are not backed by collateral, and as such, constitute a higher risk—and sometimes reward—than a secured note.

## Partnerships / LLCs

Often, individuals want to make an IRA investment in conjunction with several other investors. In many cases, the group of investors will form a partnership or LLC to make things easier to combine funds. The partnership or LLC can be formed for a number of reasons (holding real estate, making private loans, creating a private hedge fund, etc.) and the IRA can join as a partner in that entity. The IRA then shares in the profits and losses of the entity in accordance with its percentage of ownership. In most cases, the returns are not taxable to the IRA, although depending on the type and purpose of the entity, the IRA may be subject to unrelated business income tax (UBIT).

## Private placements and private stock

Private or closed corporation stock offerings are not available to the public on the open market. Normally, they are made to pre-qualified individuals, referred to as “accredited investors.” Often, many local community banks or start-up companies seek to raise capital by offering stock. IRAs can be used to purchase these shares. Recently, crowdfunding opportunities that carry less risk have become available to investors of all levels of experience who do not have to meet qualification terms to participate.



**Knowledge is power.  
Control is key,  
and diversity is essential  
in building wealth in  
your retirement account.**

## Single-member LLCs (checkbook IRAs)

Also known as a single-member LLC, the checkbook IRA is an investment strategy by which the IRA owner elects to form an LLC to be entirely owned by his / her IRA account, and the IRA owner is elected to manage that asset. This gives the IRA owner a greater deal of control over the investments held by that IRA. Individuals considering the checkbook control LLC are strongly encouraged to consult with legal and tax professionals on how to best form and operate the entity without running afoul of IRS rules.

## Futures and foreign exchange (forex) trading

IRAs can be used to set up brokerage accounts with a futures or foreign exchange (forex) trading company. The client either makes trades himself / herself, or the client gives power of attorney to someone who specializes in trading these assets.

## Precious metals

Certain gold bullion, U.S. treasury coins or palladium are allowed by the IRS for IRA investments. Typically the coin or bullion must be 99.5 percent pure metal in order to qualify as an IRA investment. The IRA owner must make sure the coin's value is not deemed collectible in nature, but instead determined by the value of the metal on the open market.

## Other investments

Aside from all of the investments listed above, an IRA can invest in lease options, tax liens / certificates, real estate options, structured settlements, foreign property, oil and gas options, and much more. In fact, so many different types of investments can be made, they are not all listed. Instead, the IRS only lists the limits of IRA investments to a few different types of assets.



# What Types of Investments Are Not Permitted Within a Self-Directed IRA?

The IRS prohibits investments made in two categories. Your self-directed IRA may not invest in life insurance products or collectibles, which include:

- ▶ Works of art
- ▶ Rugs
- ▶ Antiques
- ▶ Metals other than certain gold, silver, and palladium
- ▶ Gems
- ▶ Stamps
- ▶ Coins
- ▶ Alcoholic beverages
- ▶ Viaticals

## Prohibited transactions

Self-directed IRAs provide a great deal of freedom, flexibility, and choice of potential investments. However, they are also governed by a set of rules self-directed investors must be aware of and follow. In addition to the prohibited investments above, there are certain transactions (and more specifically, individuals) that can disqualify an investment within your IRA. These prohibited transactions can defeat the tax benefits your IRA offers and can subject the IRA to fines and penalties, as well.

Your retirement account is intended to benefit you when you retire and not before. Transactions that can be interpreted as providing immediate financial gain to account holders are not allowed. Many of these arrangements are laid out in Section 4975 of the IRS code.

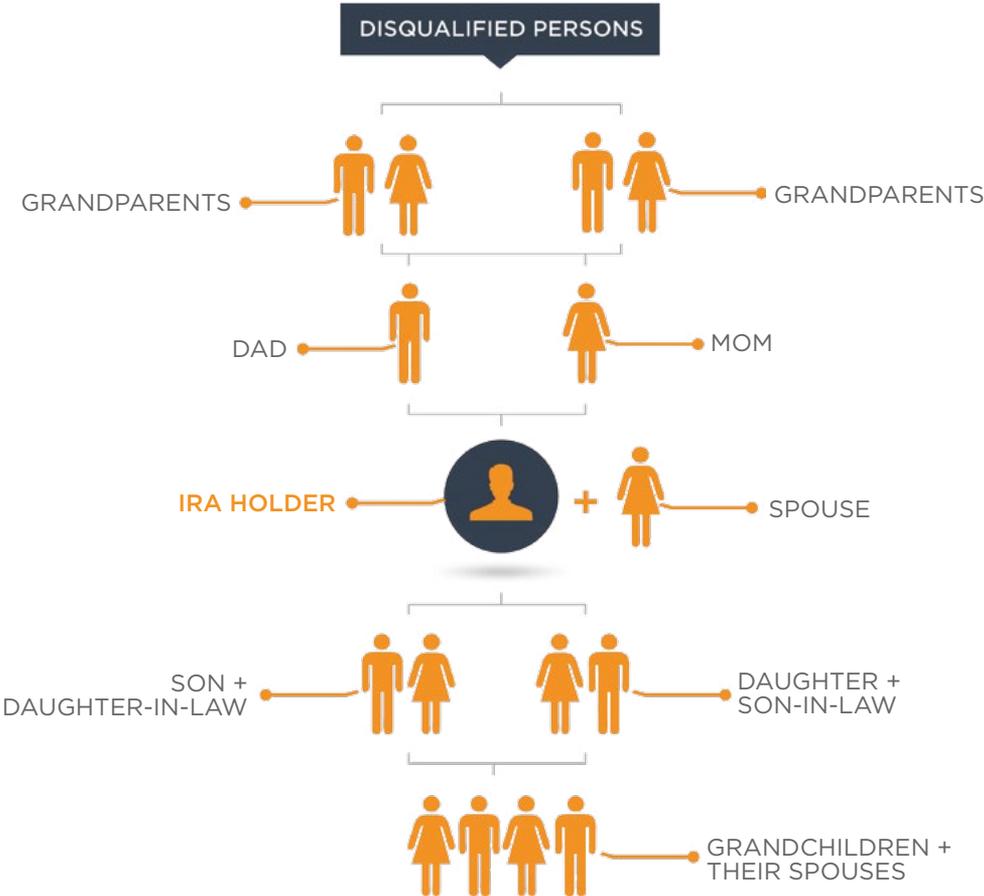
For example, IRA holders may not:

- ▶ Borrow money from their IRA
- ▶ Sell, exchange or lease property to their IRA
- ▶ Receive compensation for managing property in their IRA
- ▶ Use their IRA as security for a loan
- ▶ Transfer plan income or assets to disqualified persons
- ▶ Lend money to disqualified persons
- ▶ Extend credit on their IRA to disqualified persons
- ▶ Furnish goods, services or facilities to disqualified persons
- ▶ Allow fiduciaries to obtain or use the plan's income or assets for their own interest

# Disqualified persons

For most of the disqualifying arrangements outlined, the transaction involves the IRA and a disqualified person. Therefore, it is important to understand who is considered a disqualified person for an IRA. These individuals include:

- ▶ IRA holder and his or her spouse
- ▶ The IRA holder's lineal ascendants, lineal descendants, and spouses of lineal descendants
- ▶ Investment advisors and managers
- ▶ Any corporation, partnership, trust, or estate in which a disqualified person has 50 percent or greater interest or in which the disqualified person maintains control as a president, manager, etc.
- ▶ Anyone providing services to the IRA, such as the trustee or custodian



# Frequently Asked Questions about Alternative Assets

## Why haven't I heard about a self-directed IRA before?

Most IRA administrators only offer products they sell, which typically involve stocks, bonds, and mutual funds. Self-directed IRA administrators allow you to choose alternative investments. When you self-direct, you control your own investment choices and can potentially build wealth in your accounts by investing in what you know best.

## If my IRA does not have any funds to purchase an investment outright, can I partner with my personal funds? Who else could I partner with?

If your IRA cannot afford the investment you are interested in, you have several options:

- ▶ Partner your IRA funds with your personal funds. For example, your IRA can own 50 percent and you can personally own 50 percent of the asset(s), which would make you tenants in common.
- ▶ Partner your IRA funds with funds you personally guarantee, like a home equity line of credit.
- ▶ Partner your IRA funds with someone else's personal or IRA funds. Please note: The disqualified persons rule may not apply here since you are not transacting with the individual. Therefore, it is possible to partner with your spouse, parent or child.

## How are the assets managed? How are income and expenses handled?

You manage the asset by directing Advanta IRA's actions on your behalf. For example, in regard to real estate transactions, you would find the tenants, create rental agreements, decide on improvements, etc. Income must be deposited directly into the IRA. Advanta IRA, as the administrator of the account, will pay expenses related to the IRA asset from the cash held in the IRA. You cannot be reimbursed for any expenses the property may have, nor should you pay these expenses personally. You can either direct Advanta IRA to make a payment from your IRA or have a third-party property manager handle income and expenses. You can check your online statement to make sure your IRA received a payment. Advanta IRA's system also generates an automatic email when funds are deposited to the account.



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# What Is Next?

## Open an account

Fill out an IRA account application and submit the originals to Advanta IRA. Application documents can be found on our website or you can contact us and we will send you the paperwork.

## Fund the account

Transfer funds from an existing IRA or rollover funds from a former employer's plan. If you are eligible, you can also make an annual contribution to your IRA.

## Start investing

Send Advanta IRA a purchase authorization after an investment has been identified.

Once an account is opened, we can immediately begin working with you on the investment paperwork.



# What Documentation Is Involved in Purchasing an Asset?

## Real estate

With real estate, the contract must be listed in the name of the IRA and signed by Advanta IRA as the administrator of the account. The contract and title include the name of Advanta IRA. An example of how a title is held would be “Advanta IRA FBO John Smith, IRA #12345.” Prior to closing, the IRA owner is required to review and approve all closing documents. Advanta IRA signs the documents on behalf of the IRA.

## Notes and mortgages

For notes and mortgages, Advanta IRA needs to see the loan documents where the lender is listed as the IRA account (Advanta IRA FBO John Smith IRA #12345). The IRA owner must read and approve the actual note as well as any mortgage or other agreement to secure collateral. If the loan is not being handled through an escrow agent (like an attorney or title company), Advanta IRA must be in possession of the original, signed note prior to funding.

## LLC, LLP, and private stock investments

For newly formed LLCs or LLPs, generally the IRA is one of the members on the operating / partnership agreement. For example, there may be four equal owners to the LLC and one of the four will be: Advanta IRA FBO John Smith, IRA #12345 - 25 percent. Advanta IRA signs the agreement on behalf of the IRA. The IRA owner is required to approve the operating / partnership agreement.

With some LLCs, LLPs, and private stock, there is a subscription agreement which the IRA owner must fill out to purchase an interest in the entity. The IRA owner fills out this agreement in the name of their IRA (Advanta IRA FBO John Smith, IRA #12345) and directs Advanta IRA to sign the document on behalf of the IRA.

## Other investments

With investments that are not listed above, Advanta IRA requires paperwork or documentation proving the IRA is the owner of that particular asset. Please contact Advanta IRA for any unique situations on how to ensure the title is held in the name of the IRA.

# Advanta IRA Locations

**Serving clients nationwide**

Give yourself the freedom to control your investments  
and maximize the potential wealth of your IRA.

13191 Starkey Road, Suite 2  
Largo, FL 33773  
800.425.0653  
727.581.9853  
866.385.6045 fax

3525 Piedmont Road NE  
Building 8, Suite 101  
Atlanta, GA 30305  
800.416.8736  
866.300.0292 fax

For more information, please visit  
**[www.AdvantaIRA.com](http://www.AdvantaIRA.com)**

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