



The Dos and Don'ts of Investing in Real Estate with Your Self-Directed IRA

YOU MUST NOT PARTICIPATE IN PROHIBITED TRANSACTIONS

A prohibited transaction is any transaction between your retirement account and a “disqualified person.”

A “disqualified person” includes (partial list):

- Yourself
- Your lineal descendants (children, grandchildren, etc)
- Your lineal ascendants (parents, grandparents, etc)
- Your spouse
- A spouse of a lineal descendent
- Any entity (e.g. corporation, partnership, trust, etc.) that is owned 50% or more, singularly or collectively, by disqualified persons (i.e. the persons described above), as well as its officers, directors, highly-compensated-employees, and owners (owning 10% or more of the entity)
- A fiduciary

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 sell a property that you own personally to your IRA.
- Lending of money or other extension of credit 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.
- 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 borrow money from your retirement account.
- 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 a fee for managing a 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 59½ 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 590A.

YOUR IRA MUST 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 Madison Trust. It typically takes us 4 business days to process a payment, so make sure to submit your request in a timely manner.

YOU MUST PROVIDE ANNUAL PROPERTY VALUATIONS

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