

Protecting an IRA from Prohibited Transactions in 5 Easy Steps

What is a prohibited transaction? A prohibited transaction occurs when an IRA owner uses IRA assets in a self-serving or self-dealing manner that improperly benefits the IRA owner.

When should you look for a prohibited transaction? It may be a prohibited transaction any time an IRA owner or beneficiary has a self-directed IRA account invested in a business in which the account owner also engages outside of the IRA, has unexplained large deposits or balances in the IRA, or funnels business expenses or income through a Roth IRA.

- 1. Who does it benefit?** Make sure that all IRA transactions are done for the benefit of the IRA only. All transactions should be arms length transactions and should be made at current market rates.
- 2. Personal and IRA assets don't mesh.** Do not commingle personal assets and IRA assets or use personal assets for the benefit of the IRA or its assets. For example, if your IRA owns a rental home, you cannot spend time at the rental home, even if you pay your IRA the fair market rent that any other third party would.
- 3. You can't make a deal with your IRA.** You cannot borrow from your IRA, lend to your IRA, or pledge your IRA assets as collateral for a loan.
- 4. Watch out for promotional scams.** Promoters/promotions that say a strategy is approved by the IRS are trying to pull a fast one. IRS does NOT approve or recommend IRA transactions or investments.
- 5. Too many cooks in the kitchen.** A transaction that requires multiple entities to accomplish a strategy that would not normally be allowed in an IRA is probably a prohibited transaction.

A M E R I C A ' S I R A E X P E R T S

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