

IRA & 401(k) Insights



About: *IRA & 401(k) Insights*

IRA & 401(k) Insights is a monthly publication. This publication is for anyone interested in self-directing their retirement funds and investing in nontraditional assets. Entrust does not give investment advice. Entrust purposely does not sell securities or other investment products.

Deadline for article consideration is the 15th of each month. To subscribe to *IRA & 401(k) Insights*, call: 888-340-8977 or email:

editor@EntrustAdmin.com



Conference Edition

Message From the Editor

Welcome to the Special Conference Edition of *IRA/401(k) Insights*!

In this issue, Quincy Long of Entrust Retirement Services discusses Entity Structuring in detail. This is a continuation of a five article series devoted to the subject. Glen Mather, Entrust Administration Services, shares the many reasons why lending money with your IRA makes sense. Glen Martin of IRA Plus Southwest explores the opportunity for wealth accumulation for self-employed individuals and small business owners; Jack Kiley of Entrust MidAtlantic debates the merits of the Roth 401(k) in your retirement planning; and Bill Humphrey of Entrust New Direction takes the view point of "the road less traveled" by investing in less liquid assets for future potential in your IRA.

As you can see, we have devoted this issue of *IRA Insights* to our October conference. I hope to see and meet those of you who recognize the importance of this conference where you will learn to master the techniques to take control of your financial future. I am excited to bring this conference together which also includes Continuing Education credits for those professionals in attendance. Enjoy this month's conference edition!

Lisa Moren, Editor

Inside This Issue:

Cover

- Message from the Editor
- Entrust Client Conference

Page 2-6

- Entrust Client Conference

Page 6

- Conference Sponsors
- Are Roth 401(k) Plans a Good Idea?

Page 7

- Solo The Road Not Taken—Less Liquid Investments

Page 8

- Entity Investments in Your IRA

Page 9

- Banking on Your IRA

Page 10

- Retirement Plan Opportunities for the Self-Employed & Small Business Owners

Page 11

- Interesting Insights
- Question of the Month
- Tip of the Month

When It's Time to Retire, Will You be Ready?

October 4 & 5, 2006
Wynn Hotel & Casino
Las Vegas, NV

Join Us For Two Information-Packed Days That Will Change The Way You Plan Your Retirement.

Discover how ordinary people have turned their small retirement funds into millions of dollars. Uncover the top-secret strategies to retire rich.

Register Today!
Space is Limited.

Who Should Attend This Conference is For:

- ✓ Individuals interested in learning more about self-directed tax-free and tax-deferred investments.
- ✓ Attorneys
- ✓ CPAs, Financial Planners
- ✓ Investors
- ✓ Realtors
- ✓ Entrust Clients
- ✓ Lenders, Mortgage Brokers
- ✓ Business Owners

Informative. Insightful. And Affordable!

Educational. Extensive. Enlightening.

If you self-direct your retirement plan, this is the one conference you just can't miss. You'll learn the latest strategies in **wealth accumulation, asset protection and tax minimization** - strategies that can change the way you plan for your retirement.

We'll have experts in every key field showing you innovative ways to ensure that your self-directed retirement plan is on track to maximize your assets.

Nationally known experts will cover topics that include:

- Tax issues
- Asset protection
- IRAs
- Qualified plans
- The economy
- Nontraditional investments
- Retire rich!
- Prohibited transactions
- Barter
- Structuring transactions
- Partnering with family's IRA
- Investments in water
- Lending your IRA
- Retirement plans for the self-employed

It's the smartest way to secure your retirement. And it'll all be here for you in one comprehensive conference.

Most importantly, this conference is brought to you by Entrust - the nation's largest administrator of self-directed retirement plans. Registrations are limited. What are you waiting for? Log on to:

www.entrustclientconference.com



**Client Education
Conference**
2006

October 4-5, 2006

The Wynn, Las Vegas

Learn from our keynote speakers, the experts in self-directed retirement plans!

➤ Hugh Bromma- CEO, The Entrust Group

"Securing Your Retirement...The Next Step"

Where are you with your retirement plan today? Learn how to develop realistic expectations to accumulate wealth in your retirement plan. The new Roth 401(k) and what it means to you.

➤ Susan Diehl- President, Penserv

State of the Retirement Industry

"What you must know to self-direct your retirement plan"

Latest and greatest information from Washington. Sunset Provision: what everyone must know. How Medicare and social security impact you.

➤ Keith Stunek- Director of Education and Development, The Entrust Group

"Choices" in today's do it yourself environment"

In today's do it yourself environment, it is very important to be aware of the **"CHOICES"** that YOU as an individual have.

➤ Richard Lipton- Attorney, Baker and McKenzie

Exchanges and Tax Issues

"Tips for structuring real estate transactions that are most profitable inside and outside your retirement plan"

During this presentation we will discuss the different types of transactions that one can structure in a self-directed retirement plan as well as the tax issues that are involved in the transaction.

➤ Mark Merric- Attorney, CPA, National Expert on Asset Protection

Asset Protection Techniques that Do Not Work

"Keeping what you have worked so hard to achieve"

During this presentation, we will take a look at asset protection techniques that do not work. How to protect your assets through retirement plans, insurance, and annuities; protection tools for High Net Worth Individuals.

You'll find other conferences with similar content costing as much as \$5,000! But you'll get everything we've outlined priced as low as \$249! Register NOW!

(888) 236-0309 ext. 1

Go online to:

www.entrustclientconference.com

15 Breakout Sessions

Look Who's Talking:

One expert after another will deliver the information that will change the way you plan for your retirement. Included in your conference are 15 sessions in critically important areas - including:

Dyches Boddiford - Real Estate Investor and National Speaker

PROHIBITED TRANSACTIONS: "Avoiding the Bleeding Edge"

This session will go beyond the basics to explore some of the nuances and gray areas of the rules governing prohibited transactions. Can your IRA make loans to your customers? Can personal funds be invested along with IRA funds? Can a transaction between your IRA and your brother or sister be prohibited?

Glen Mather - President of Entrust Administrative Services, Inc. Serving east and central Florida.

"Be the Bank: Invest through Lending your IRA"

While many self-directed IRA holders choose to own real estate within their IRAs, a growing segment of investors are opting to lend money from their IRAs. In many cases, clients are able to generate sufficient cash flow with these debt instruments to meet the required minimum distributions (RMD) that they may face from their IRA without touching the principal amount. During this session we will explore mortgage lending, unsecured loans, and other debt instruments that are available within your retirement plan. Included will be step-by-step examples of loan closings, as well as instruction on how to properly title and service the loans.

Bill Humphrey - CPA, Principal of Entrust New Direction IRA. Serving CO, WY, MT

"Taxes in an IRA - UBIT: A Case Study."

Unrelated business income tax (UBIT) and its applicability to debt financed income in an IRA has been the subject of much fear-mongering from investment consultants and investment advisors. Many of those advisors are concerned with their clients going into the tax unknown. Join us for a quick journey into the dark UBIT unknown. Learn how UBIT affects IRA investment returns and walk away with the ability to shine a new light on this misunderstood area of the tax code. See how that new light reveals that the benefit of using leverage can far outweigh the tax implications for an IRA.

Dave Worley - CPA, National Speaker

"Consolidating Capital using the Family IRA owned LLC"

This session will discuss how to set up an LLC that is owned by individual family members' IRAs, management issues, allocations among members, handling additional member contributions or withdrawals. Pros and cons of using a consolidated IRA LLC versus individual IRA investments

Quincy Long - President of Entrust Retirement

Services, Inc. / CEO of Entrust IRA Administration, LLC
Serving Houston and San Antonio, TX

"The IRA Owned LLC - Tax and Legal Implications"

IRA owned LLCs and other entities, including the "checkbook control" LLC, are very popular today in the self-directed IRA world. But do you really know what you need to know to keep out of trouble or to properly advise your clients? When does an IRA incur the tax on unrelated business income or unrelated debt financed income? Does the LLC provide a shield against possible prohibited transactions which may cause the IRA to be distributed prematurely? Is there a way to safely have "checkbook control" over your IRA's funds? When is the entity ignored for purposes of asset ownership and the prohibited transaction rules? These questions and more will be answered! If you invest your IRA in small, non-publicly traded companies or you advise clients who do, you cannot afford to miss this discussion!

Jennifer Dizmang - Real Estate Investor, National Speaker, Financial Consultant

"Turning Water into Gold: The Quiet World of Water Investing"

In the West, the battle for water has been an ongoing clash of city against city fighting for a dwindling supply of life's fundamental building block. The competition for water to fuel urban growth has created an unregulated commodities market in some of the Western states - a market that is making a lot of people wealthy and encourages private investors to look for new and profitable ways to deliver water to these cities. This course will discuss the history of water and how to potentially invest in water with your self-directed retirement plan as a means of portfolio diversification and profit.

Glen Martin - Partner of IRA Plus Southwest
Serving Oklahoma and Dallas Texas
"Self-Directed Retirement Plan Opportunities for
Self-Employed & Small Businesses"

Participants will be given an overview of the different types of retirement plans available. The advantages and disadvantages of each type of plan will be described, including contribution options & limits, investment options, eligibility requirements, and distribution rules. Handouts will include side by side comparisons of each plan. Participants will learn which type of retirement plan is best for their particular circumstances. Unique case studies will be presented using innovative planning techniques such as utilizing a two-plan combination to maximize plan contributions and tax deductions.

Magi Bird - President of Remcor Realty, Investor and
National Speaker

"Why Buy When You Can Barter"

Learn how you can increase your income 20% and make 50% or better returns on it. Create an endless supply of discounted paper. Fire your banker and be the bank.

Jack Kiley - CPA, PFS, Partner of Entrust MidAtlantic
Serving MD, VA, DC and Western Counties of WV

"Tax Enhanced Programs for Individuals and Companies"

During this presentation, you will achieve a basic level of proficiency in understanding techniques and methods which permit you or your clients to design self-directed investments in a manner consistent with IRS rules. The outcome of this course will also allow for creative approaches to designing a wide range of investment opportunities using the tax rules to one's benefit.

Here's What's Included In Your Conference:

- ◆ All conference materials
- ◆ Attendance to all sessions
- ◆ Welcoming evening reception
- ◆ Book "Real Estate Investing for the Utterly Confused"
- ◆ Continued Professional Education Credits
- ◆ Lunch with keynote presenter
- ◆ Book "How to Invest in Real Estate and Pay Little or No Tax"
- ◆ Sponsor breakfast
- ◆ Participation at Q & A closing session

Here is How to Register...

To register, call us at 888-236-0309 x 1. Or visit us online at:

www.entrustclientconference.com

Secure registration forms are available on our web site.

The Entrust Client Education Conference is being held at The Wynn Hotel in Las Vegas. Book your lodging accommodations early because this hotel fills up fast! Rooms are available for conference attendees starting at \$229.00. For reservations, contact The Wynn at 866-770-7555.

Do it now - and we'll see you in Las Vegas October 4th!



Wynn Hotel & Casino, Las Vegas

Register now and receive 2 books free:

code: ML#4

"How to Invest in Real Estate & Pay Little or No Tax"

"Real Estate Investing for the Utterly Confused"

October 4, Wednesday

Time	Opening General Session	
9:00 am 10:30 am	Hugh Bromma, CEO, The Entrust Group "Securing Your Retirement...The Next Step"	
10:30 am 10:50 am	Break	
10:50 am 12:00 am	General Session Keynote Susan Diehl, President, Penserv State of the Retirement Industry "What you must know to self-direct your retirement plan"	
12:00 pm 1:30 pm	Lunch General Session Keith Stunek, Director of Development and Training, The Entrust Group "Choices" in today's do it yourself environment"	
Time	Track 1 Location	Track 2 Location
1:40 pm 2:40 pm	Jack Kiley "Tax Enhanced Programs for Individuals and Companies"	Dyches Boddiford PROHIBITED TRANSACTIONS "Avoiding the Bleeding Edge"
2:50 pm 3:50 pm	Magi Bird "Why Buy When You Can Barter"	Bill Humphrey "Taxes in an IRA – UBIT A Case Study."
4:00 pm 5:00 pm	Glen Mather "Be the Bank: Invest through Lending your IRA"	Dave Worley "Consolidating Capital using the Family IRA owned LLC"
6:30 pm 8:30 pm	Welcome Reception	

October 5, Thursday

7:30 am 8:45 am	Continental Breakfast Sponsored by Reef Securities	
9:00 am 10:00 am	General Session Keynote Richard Lipton, Attorney, Baker and McKenzie Exchanges and Tax Issues "Tips for structuring real estate transactions that are most profitable inside and outside your retirement plan"	
10:00 am 10:15 am	Break	
10:15 am 12:00 pm	General Session Keynote Mark Merric, Attorney, CPA, and National Expert on Asset Protection Asset Protection techniques that do not work. "Keeping what you have worked so hard to achieve"	
12:00 pm 1:30 pm	Lunch Break (on your own)	
Time	Track 1 Location	Track 2 Location
1:40 pm 2:40 pm	NASB Sponsor Presentation	Glen Martin "Self-Directed Retirement Plan Opportunities for Self Employed & Small Businesses"
2:50 pm 3:50 pm	Quincy Long "The IRA Owned LLC – Tax and Legal Implications"	Jennifer Dizmag "Turning Water into Gold: The Quiet World of Water Investing"
4:00 pm 5:00 pm	Closing Session-Panel	

Entrust Wealth Conference Sponsor Participation:



Reef Oil & Gas Partners, LP will provide an overview of direct participation oil and natural gas investments. Reef sponsors multiple well drilling programs that concentrate in the most prolific oil and gas production areas in the United States. Investing in oil and gas has the potential to both generate revenues and allow tax savings. Familiarizing yourself with the advantages of direct investment opportunities such as oil and gas can help put you in a better position to reach your financial objectives.



North American Savings Bank, F.S.B. has been providing loans since 1927 and is the **only nationwide non-recourse lender for IRA real estate investments.** NASB will be discussing non-recourse loans at the upcoming Client Education Conference.

Are Roth 401(k) Plans a Good Idea?

By: Jack Kiley, CPA, PFS

Beginning on January 1, 2006, businesses have had the option to add a Roth deferral element to their 401(k) plans. What this means is that, assuming an employer added this option, the employees would be able to designate money deferred from their pay as they do currently (on a pretax basis) or on a new after tax basis. This after tax method is referred to as a Roth deferral because the earnings on these funds would not be taxed. Since the inception of the Roth 401(k) plan, there has been a running debate as to whether it makes sense (tax wise) to utilize the Roth feature or to continue to defer from pay using the traditional deferral feature.

The answer to this question depends on several factors. Some of these include the time to retirement, other potential sources of retirement income, and your tax rate outlook.

If you cut through all the numbers, really what you're looking at is the earnings you made on the deferrals. You will pay tax on the deferrals themselves (with Roth you pay in the year of deferral and with traditional you pay when you pull the money out). The question becomes, what is the potential tax savings on the earnings if the Roth deferral is made.

The first factor is the length of time until you retire. If you retire in five years, the maximum amount you can defer will be \$75,000 (using the 2006 max deferral amount-this amount will increase in future years). Your potential earnings assuming a 10% average rate of return would be about \$12,000 making your potential tax savings about \$4,000 (assuming 30% tax rate). This may not be worthwhile. If, however, you had twenty years to retirement, your total amount deferred would be

\$300,000 with the potential earnings at 10% being approximately \$220,000. The tax savings on the amount would be about \$66,000. The tax savings on \$220K may be worth forgoing the current year tax deductions.

Other sources of retirement income are a potential consideration. If you plan to have other streams of income at this time of your life, Roth is more appealing. One of the great advantages of Roth is the fact that you are not required to take distributions beginning at age 70 ½. This allows for a longer period of time for your retirement funds to grow. Roth also allows you to 'supplement' your retirement income without impacting your tax situation. If you needed to buy a new car, for instance, and took \$30,000 out of your Roth, there would not be any tax impact (Roth funds come back to you tax free).

Your outlook on tax rates also has a bearing on whether to utilize Roth deferral or not. If you think tax rates are going to increase, you may want to pay the tax now (presumably at a lower rate).

These are but a few considerations you should take into account when deciding the utilized the Roth 401 (k). As with any tax and financial planning, you should seek the advice of trained, certified professionals.

*Jack Kiley, CPA - Partner, Entrust MidAtlantic, LLC.
Serving the states of Maryland, Virginia, DC, and the
Western Counties of West Virginia.
jack.kiley@entrustmidatlantic.com
www.entrustmidatlantic.com*

The Road Not Taken - Less Liquid Investments

By: Bill Humphrey

Investors want liquidity in their investments. The strong desire to “buy today, sell tomorrow” should generate the question: “what premium are you willing to pay for this much liquidity?”

Conversely, what cost advantage do less liquid investments—such as real estate—have if the demand for them is lower? Preference for liquidity, which may or may not be appropriate for all investors, is what I want to explore in this article. In the words of Robert Frost (1920):

Two roads diverged in a wood, and I—

I took the one less traveled by,

And that has made all the difference.

Robert Frost may not have been talking about investing, but this poem illustrates the nature of choice. As his famous poem describes, choice is a fabulous thing, but it does require a decision. The phrase, “The road more traveled or the other?” is analogous to either following the crowd or making your own investment choices for your retirement future.

Which road will you travel?

When considering choices for retirement investing, one divergence in the “road” appears when you must choose how much liquidity you want in your plan. One fork takes you to investments offering almost complete liquidity, such as publicly traded securities and mutual funds. The other leads to longer term investments, including such opportunities as real estate, mortgages, or private placements.

Which road are you taking with your retirement plan?

The past 20 years have featured an explosion in the availability of financial information. We have gone from receiving monthly statements via mail, to looking in the evening newspaper, to now having instantaneous price updates for practically all traded securities. IRA holders and Qualified Plan participants have enjoyed being able to know, day by day, how much their plans are worth. Securities brokers and plan administrators have provided their clients with instant access to data as well as the ability to buy and sell at the drop of a finger on the keyboard.

It is incredible to have access to so much information and the ability to make instant choices. The vast majority of all retirement investors have chosen this road. And al-

most universally the choice is for instantaneous liquidity.

With everyone choosing liquidity, can it be inferred that instant liquidity is the best choice?

Is taking the road *more often* taken the best choice? The economic laws of supply and demand indicate that if demand is high, then prices will go down. Does the availability of instant liquidity result in lower returns? Some economic researchers believe it does. Dr. John Campbell, Professor of Economics at Harvard University and member of the board of the Harvard Management Company, believes the overall **risk-adjusted** returns for highly liquid investments are often significantly less than returns for less liquid investments.

Further, Dr Campbell pointed out at the “*Pathways to a Secure Retirement*” conference sponsored by the Retirement Research Consortium in August of 2006, retirement plans seldom require access to instant liquidity, but plan holders appear to be selecting it nonetheless, regardless of cost. The well-traveled road more taken comes at a measurable cost. Campbell believes that plans should seek profitable investments that do not include instant liquidity. Like Mr. Frost, Dr. Campbell favors the road less taken.

Investors are paying a premium for liquidity that their plans do not need. Retirement plans are accumulating assets over the long term.

Satiating the current investors’ personal desire for high liquidity comes at the sacrifice of long term investment growth.

What would Robert Frost choose?

If Robert Frost had an IRA, I believe he would have chosen the retirement investment options less commonly chosen, those with less than instant liquidity. The majority of investment choices found on the road less taken are available only to retirement plans which are truly self-directed, such as those offered by the Entrust Group.

What road will you take?

Bill Humphrey, a Colorado CPA, is President of Entrust New Direction IRA, Inc. Serving the states of Colorado and Wyoming. www.NewDirectionIRA.com

Entity Investments in Your IRA - Is Your Investment Income Taxable to the IRA?

By: Quincy Long

This article is part of a series of articles discussing some issues arising when investing your IRA into an entity such as a limited liability company, corporation, limited partnership, or trust. In October, I will be delivering one of the breakout sessions on entity investments at the Entrust Client Education Conference in Las Vegas, Nevada.

Many people are surprised to learn that, as discussed below, there are 2 ways in which an IRA's investment in an entity may cause the IRA to owe tax on its income from that investment. This does not necessarily mean that you should not make the investment in the IRA. It does mean that you must evaluate the return on the investment in light of the tax implications.

The first situation in which an IRA might owe tax on its' entity investment is if the entity invested in is non-taxable, such as a limited partnership or an LLC treated as a partnership for tax purposes, and the entity operates a business. Although investment in an entity which is formed for the purpose of capital investment, such as the purchase and holding of real estate, should not generate taxable income for the IRA (unless there is debt financing), any income from business operations would be considered Unrelated Business Income (UBI) for the IRA. UBI is the income from a trade or business that is regularly carried on by an exempt organization and that is not substantially related to the performance by the organization of its exempt purpose, with the exception that the organization uses the profits derived from this activity. Exclusions from UBI include dividends; interest; annuities and other investment income; royalties; rents from real property (but not personal property); income from certain types of research; and gains and losses from disposition of property (except property which is considered to be inventory).

Example. Ira N. Vestor has a large rollover IRA from a former employer and wants to help out his friend, Will B. Richer, who is starting a new restaurant business. Will offers Ira a 25% ownership interest in his new business, Eat Richer Restaurants, LLC. Ira believes Will is going to be a huge success and wants to grow his IRA. The LLC will be taxed as a partnership. Ira will not be paid and will have no part in the management or operation of the business. Because the LLC is taxed as a partnership, the IRA must pay taxes on its share (whether or not distributed) of the gross

income of the partnership from such unrelated trade or business less its share of the partnership deductions directly connected with such gross income.

A second situation in which an IRA may owe tax is when the entity invested in owns debt financed property. Anytime an IRA owns debt financed real estate, either directly or indirectly through a non-taxable entity, the income from that investment is taxable to the IRA as Unrelated Debt Financed Income (UDFI). Some key points to remember about UDFI include: 1) the IRA is only taxed on the debt financed portion of the invest-

ment income (see example below), 2) the IRA is allowed most of the normal expenses, depreciation (on a straight line basis) and similar items which are directly connected to the debt financed income in calculating its UDFI, 3) the tax on the gain or loss is determined according to the usual rules for capital gains and losses, and 4) there is no tax if the debt has been paid off for at least 12 months prior to the sale.

Example. Ira N. Vestor wants to use his IRA to invest in a limited partnership, Pay or Go, L.P., which will purchase an apartment complex. The lender requires a 20% cash down payment, and will not permit subordinate financing. Because the property is 80% debt financed, Mr. Vestor's IRA will owe a tax on approximately 80% of its net profits from the limited partnership (the percentage subject to tax changes as the debt is paid down and the basis is adjusted). When the property sells, Mr. Vestor's IRA will have to pay capital gains tax on the debt financed portion of the profits. Only the profits from the rents or capital gains from the sale that are attributable to the debt financing are taxable to the IRA. For example, if the gain on the sale of the apartment complex is \$100,000, and the highest acquisition indebtedness in the 12 months prior to the sale divided by the average adjusted basis is 75%, then \$25,000 of the gain is tax deferred or tax free as is normal with IRAs, while the IRA would owe tax (not Mr. Vestor personally) on \$75,000.

"But," you ask, "if an investment is taxable, why make it in the IRA?" That is a good question. To figure out if this makes sense, ask yourself the following key questions: First, does the return you expect from this investment, even after paying the tax, exceed the return you could achieve in other non-taxable investments within the IRA? Second, do you have plans for re-

*"if an investment
is taxable, why
make it in the
IRA?"*

investing the profits from the investment? If you re-invest your profits from an investment made outside of your IRA, you pay taxes again on the profits from the next investment and the one after that, etc. At least within the IRA you have the choice of making future investments which will be tax free or tax deferred, depending on the type of account you have.

Is there any way to get around paying this tax? The short answer is yes. Investments can often be structured in such a way as to avoid taxation. Dividends, interest, investment income, royalties, rents from real property (but not personal property), and gains and losses from disposition of property (unless the property is debt financed or is considered "inventory") are all excluded from the calculation of UBI. There are many ways to structure your IRA investment to avoid taxation. Some examples of how you might structure a transaction in ways that are not taxable to the IRA include:

Example. Suppose in the Eat Richer Restaurants, LLC example above the LLC elected to be treated as a corporation instead of a partnership, or a C corporation was formed instead (IRAs may not own shares of an S corporation). Because the entity has already paid the tax, the dividend to the IRA would be tax free or tax deferred. This may not be acceptable to other shareholders, however.

Example. Instead of his IRA investing directly in Pay or Go, LP, Ira N. Vestor could have made a loan instead. The loan could have been secured by a second lien on the property (which may not be permitted by the first lienholder, however). The loan could even be secured by shares of the LP itself, possibly with a feature allowing the loan to be converted at a later point to an equity position in the LP (a "convertible

debenture"). *Caution:* With lending there may be state or federal usury limits on how much interest may be charged, and, if the debt is converted into equity, the IRA may then owe taxes at that time.

Example. Another choice for investing without the IRA paying taxes is to purchase an option instead. When your IRA owns an option to purchase anything, it can 1) let it lapse, 2) exercise the option, 3) sell or assign the option (provided the option agreement allows this) or 4) release the owner from the option for a fee (in other words, getting paid not to buy!)

A careful analysis of an investment which causes the IRA to owe tax will often lead to the conclusion that having your IRA pay taxes now may be the way to financial freedom in your retirement. Be sure to have your IRA pay the tax if it owes it, though. As I always say, "Don't mess with the IRS, because they have what it takes to take what you have!"

To find out more about the tax on UBI and UDFI, visit our website at www.theentrustgroup.com. Also, Unrelated Business Taxable Income and Unrelated Debt Financed Income are covered in IRS Publication 598, which is freely available on the IRS website at www.irs.gov. The actual statutes may be found in Internal Revenue Code §511-514.

Quincy Long is an attorney and is President of Entrust Retirement Services, Inc. in Houston (www.entrusttexas.com) and CEO of Entrust IRA Administration, LLC in San Antonio (www.entrustsdira.com). He may be reached by email at Qlong@entrusttexas.com. Nothing in this article is intended as tax, legal or investment advice.

Banking on Your IRA - Through Lending

By: Glen Mather

A few years ago, a trio of elderly investors arrived at the reception area of my office unannounced and without an appointment—a relatively rare occurrence. Being a good host, I invited them into my conference room, offered them coffee, and then I placed several Entrust brochures in front of them, describing our self-directed IRA services.

I presumed the group had come to learn more about our business so I immediately launched into my normal impassioned message on the power of self-direction by "Unlocking Your IRA." No sooner had I started, the lone female jumped up and



said "Thank God - you do self-directed IRAs and you are local!" Evidently, the group had been self-directing their IRAs for years, but their administrator's company had been bought out by a large corporation out of state and they were now frustrated by long delays and poor service. The spokeswomen of the group said, "we have been issuing mortgages from our IRAs for over 20 years, and we don't want to stop now!"

As Director of the Entrust Office servicing east and central Florida, I've come to appreciate the passion that some of our clients have for lending their IRAs. There can be many

reasons that individuals choose this avenue for their retirement plan investments:

- **Easy to Manage:** Unlike most real estate purchases, lending generally requires minimal management once the loan is in place
- **Provides Liquidity:** While some LLC, Private Placement or Real Estate investments may have a long gestation period, loan payments can be structured monthly, quarterly or annually, providing cash balance that is especially important for individuals that require routine withdrawals or those facing required minimum withdrawals after reaching the age of 70½ years.
- **Permits Flexibility of Terms:** The IRA holder can create the terms of the note to properly reflect the amount of risk he is willing to take vs. the amount of interest that the borrower is willing to pay. For example, the down-payment or interest rate can be increased based on the strength of the borrowers financial statement or credit rating
- **Provides Security:** Loans can be secured by first or second mortgages, providing the IRA recourse should the borrower default. In the unlikely event that

foreclosure is required, the IRA should pay any expenses in obtaining payment or collection on the loan.

- **Can Result in Significant Returns:** Our account holders issue first and second mortgages from their IRAs at rates from 8% - 16%, with many charging loan origination fees (points). While some clients locate their own mortgages, many rely on local companies that will match their funds to borrowers, or will aggregate several IRAs into one mortgage.

As with all investments that you make, we would suggest that you speak to your legal and financial advisors regarding the structure of any loan that you would issue from your IRA. Many times title companies are happy to provide the basic note and mortgage forms in order for you to get started.

I would encourage you to contact your local Entrust office for more information as to the very basic process by which you, too, can become an impassioned lender of your IRA.

Glen Mather, Director of Entrust Administration Services, Inc. (877) 259-3256. Serving eastern and central Florida. www.entrustfl.com

Retirement Plan Opportunities for the Self-Employed & Small Businesses Owners

By: Glen Martin

Retirement plans are an excellent wealth building tool for self-employed individuals and small business owners that is often overlooked or under utilized. For example, most individuals that are self-employed or own small businesses believe that the easiest and least expensive type of retirement plan is a SEP (Simplified Employee Pension Plan). Although in some cases this may be their best option, it really depends on the circumstances of each individual. Let us assume an individual has a Sub-S Corporation and earned income of \$50,000 for a year and wants to maximize their tax-deductible contribution to their retirement plan. The maximum contribution to a SEP is \$12,500 while a Profit Sharing Plan with a 401(k) provision (PS/4k) would allow the individual to contribute \$15,000 as an employee deferral and \$12,500 as an employer profit sharing contribution for a total of \$27,500. If we changed the earned income in our assumption to \$100,000, the SEP contribution would be \$25,000 while a PS/4k Plan would allow an individual to contribute \$15,000 as an employee deferral and \$25,000 as an employer profit sharing contribution for a total of \$40,000. In each case, the PS/4k Plan provides a contribution amount of

\$15,000 higher. If the self-employed individual was age 50 or older at anytime during the year, an additional \$5,000 could be contributed by the employee as a catch-up deferral contribution to the PS/4k Plan.



The tax savings of approximately \$5,000 - \$7,000 on the extra \$20,000 deductible contribution will more than offset the additional administrative costs of approximately \$1,500 the first year and \$800 thereafter of the PS/4k Plan. The illustration on the next page demonstrates the value of knowledgeable advice regarding retirement plan alternatives for self-employed individuals.

If you are the owner of a small business, the choice of retirement plans for your business becomes more complex when adding employees into the equation. It requires even more expertise to properly evaluate and design a plan to meet your objectives. You will have an opportunity to compare and contrast alternative retirement plan designs for self-employed individuals and small business owners during my breakout session at our upcoming October client conference in Las Vegas. My partner and I

have been designing and administering retirement plans for self-employed individuals and small business owners for over 20 years.

Glen Martin is Partner of IRA Plus Southwest. Serving Oklahoma and Dallas, Texas. www.iraplussouthwest.com

Age	Earned In- come	SEP	Profit Sharing Plan w/ 401(k) Provision(PS/4k Plan)			Difference
		SEP Contribution	401(k) Defer- ral	Profit Sharing Contribution	Total PS/4k Plan Contribution	
Under 50	50,000	12,500	15,000	12,500	27,500	15,000
50 & over	50,000	12,500	20,000	12,500	32,500	20,000
Under 50	100,000	25,000	15,000	25,000	40,000	15,000
50 & over	100,000	25,000	20,000	25,000	45,000	20,000

INTERESTING INSIGHTS

What would happen If the price of oil is raised to \$100 a barrel? The U.S. Census Bureau predicts:

- a gain of 400,000 jobs rather than 2 million
- Inflation to hit 4.4% rather than 3.4%
- Mortgage rates to hit 8%
- Declining home sales and home values

Source: U.S. Census Bureau:

Small-business owners prepare for retirement.

58% of all small business owners are on track in saving for retirement compared to 41%. 1% does not have an opinion. Small businesses are defined as companies with fewer than 100 employees.

Source: American Express Small Business Monitor

QUESTION OF THE MONTH

“Purchase with Husband and Wife IRA Funds”

Question: My husband and I want to combine our IRA accounts and purchase a piece of raw land now. I am 55 and he is 57. What are the rules for combining IRA accounts? Can we then invest our personal funds into building on this property when he is at least 59½ retirement age)? Or do both of us need to be 59½ to avoid any penalties?

Answer: Each IRA receives a proportionate interest in the property invested. You may also use personal funds to invest in such property simultaneously. Age has no bearing. You may only combine IRAs of spouses (into one IRA) when one spouse dies.

TIP OF THE MONTH

Almost ½ of all adults fear financial hardship will strike in retirement. Is your goal to enjoy a richer, more rewarding life? Take the first step now to secure financial freedom in your retirement. You have worked hard to get to today. Now make your IRA or 401(k) last a lifetime. Learn from the best! Attend The Entrust Conference. www.entrustclientconference.com or call 888-236-0309 ext. 1 today!



555 12th Street, Suite 1250
Oakland, CA 94607

Phone: 800-340-8977
website: www.entrustusa.com

What's Inside...

- Message from the Editor
- Entrust Client Conference
- Conference Sponsors
- Are Roth 401(k) Plans a Good Idea?
- Solo The Road Not Taken—Less Liquid Investments
- Entity Investments in Your IRA
- Banking on Your IRA
- Retirement Plan Opportunities for the Self-Employed & Small Business Owners
- Interesting Insights
- Question of the Month
- Tip of the Month