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Be Careful at You Put Into Your IRA

Adam Bergman, Contributor

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Individual retirement accounts (IRAs) exist in many forms. In general, you can contribute to an IRA by working for yourself or an employer. You can also contribute to an IRA by making a lump-sum contribution and contribute to an IRA by making a lump-sum contribution.

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Image via Wikipedia

Most of the more than \$1 trillion in IRAs held in IRA accounts are held by the brokerage firms and invested in stocks, bonds, and mutual funds. Alternative investments such as real estate have always been permitted in IRAs, but few people seemed to know about this option until the last several years. Large financial institutions have little incentive to recommend investments other than their traditional offerings which bring in extremely profitable commissions and fees.

"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. It's important to understand what IRA funds can be used for and what is not allowed.

The Internal Revenue Code does not describe what an IRA can invest in, only what it cannot invest in, and certain prohibited transactions. To start, here are some examples of types of investments that can be made with your IRA:

- Residential or commercial real estate
- Domestic or Foreign real estate
- Raw land
- Foreclosure property
- Mortgages
- Mortgage pools
- Deeds
- Private loans

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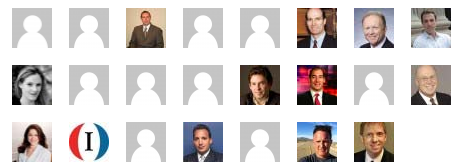
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What is not allowed in an IRA is more complicated. The IRS prohibits certain transactions and also investments involving “disqualified persons.” It is easiest to describe this by first defining a disqualified person and then explaining the different types of prohibited transactions which fall into separate categories including “direct,” “self-dealing” and “conflict-of-interest.”

Defining a “Disqualified Person”

The IRS has restricted certain transactions between the IRA and a disqualified person. The rationale behind these rules was a congressional assumption that certain transactions between certain parties are inherently suspicious and should be disallowed.

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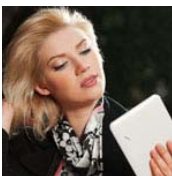
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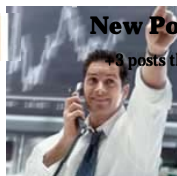
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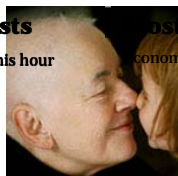
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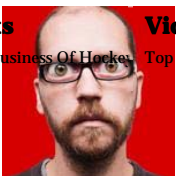
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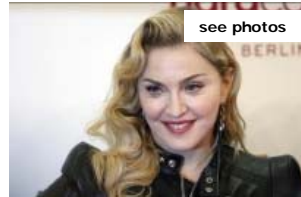
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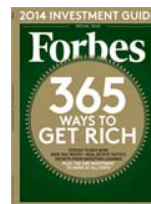
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