Investing in Businesses with a Self-Directed IRA

Are you planning to invest in businesses with your IRA or 401(k) funds? There are four important factors you should be aware of in order to ensure your investment will be tax-preferred and aligns with IRS guidelines.

KEEP YOUR DISTANCE

Keeping your distance will help you avoid disqualified parties. A business investment will need to be carefully evaluated if it involves lineal family, a fiduciary to your IRA, a key employee of a company that you or a close family member owns, or a business partner. The IRS rules prohibit any direct or indirect benefit between a plan and a disqualified party.

NO S CORPORATION INVESTMENTS

An IRA or Solo 401(k) cannot invest in S corporations. This is because the type of shareholders allowed with S corporations is restricted to US citizens and certain forms of trusts and estates.

WHEN UBIT APPLIES

You should consider whether the investment will create exposure to Unrelated Business Income Tax (UBIT), which applies to tax-exempt entities. UBIT is designed to level the playing field so that tax-exempt entities do not drive tax-paying businesses out of business.

WHEN UBIT EXPOSURE IS OK

The potential generation of operating income from a business investment that is subject to UBIT doesn't necessarily mean you shouldn't invest. In order to determine whether it's a good idea to invest in a business, you should have a good understanding of the implications of UBIT and how the tax can impact return on investment for your IRA or Solo 401(k) funds.

For more information on investing in businesses with your self-directed IRA, contact an expert at Safeguard Advisors today!