CHAPTER 6

YES!

YOU CAN INVEST IN REAL ESTATE WITH YOUR IRA!

THE OFFICIAL SELF-DIRECTED IRA INVESTORS GUIDE

IRAR TRUST COMPANY

IRA RESOURCES, INC.

CHAPTER 6

FUNDING YOUR SELF-DIRECTED IRA

Ready to fund your new self-directed IRA? We'll walk you through the process from start to finish. This chapter gives you the information you need to fund your self-directed account quickly and easily, so you can start building the retirement of your dreams.

Contents

Introduction

If you’ve already been saving for retirement, or if you’ve been in the workforce a few years, you probably have an existing retirement fund somewhere. You can move that money to a self-directed IRA to invest in real estate. Even if you don’t have existing savings, it’s still not too late to start. You can start contributing and investing right away.

At IRAR, we make the process as simple as possible, but you must follow IRS guidelines to do it right. Here’s the information you need to do just that— all without breaking a sweat.

In order to start investing with a self-directed retirement account, you need to get funds into your new self-directed IRA.

There are three ways to do that:

- **Contributions**
- **Transfers**
- **Rollovers**

Contributions let you put your personal funds into your IRA, within certain limits, either pre- or post- tax, depending on the type of account. If you don't already have retirement savings or want to add more, contributions are how you'll get money into your self-directed IRA. We covered this in more detail in chapter 4, Self-Directed IRA Account Types.

Transfers and **Rollovers** are how you move funds from existing retirement accounts into a self-directed IRA. We'll cover these methods in this chapter.

If you've changed jobs or retired already, chances are you have savings in an old employer retirement plan like a 401(k), 403(b), or governmental 457(b). Maybe you're already saving on your own at another big-name retirement firm.

No matter how you're saving, you can move those existing funds to a self-directed IRA and invest in real estate! There's no penalty.

NOTE:

If you're currently employed and your current retirement plan is with your employer, you may not be able to move it to a self-directed IRA. Active plans don't typically allow funds to leave during the tenure of your employment. However, it never hurts to ask your plan administrator. If you can move your funds, you're able to invest in almost anything imaginable (with the exception of prohibited transactions and investments, see IRC 4975 and our previous chapter for more details).

IRA Contributions

If you're still working, make sure you're taking full advantage of the opportunity to save for your retirement by contributing to an IRA. You can make contributions all year, as long as you don't exceed the amount allowed by the IRS, see below.

Consider contributing to your self-directed IRA if you:

- want to continue to build wealth in your self-directed IRA
- want to make more alternative investments
- need liquidity/cash in your account to cover IRA expenses and don't want to liquidate assets
- want to get a tax-deduction (if you qualify)
- want to increase the possibility of early retirement

There are many more reasons why you should consider contributing, these are just a few most cited by our clients.

We go over these limits in more detail in chapter 4, Self-Directed IRA Account Types, but you can also check out our contribution page for the most up-to-date information on IRS limits and restrictions.

Transfers

A **transfer** is when you move your IRA funds directly from one custodian to another. It's the most common and basic way to move your retirement account. It's hands off for the investor, and you don't see the money at all. Your old custodian sends it directly to your new custodian.

For example: If you had an IRA at Fidelity and wanted to move it to IRAR, a transfer is the easiest way to do that. Fidelity sends your funds directly from your account with them to your new self-directed IRA at IRAR.

Unlike rollovers (discussed later in this chapter), transfers are non-reportable events, meaning they aren't reported to the IRS and have no limits on the number or frequency. In one year, you can do as many transfers as you want, as often as you want.

Transfer to Compatible Types

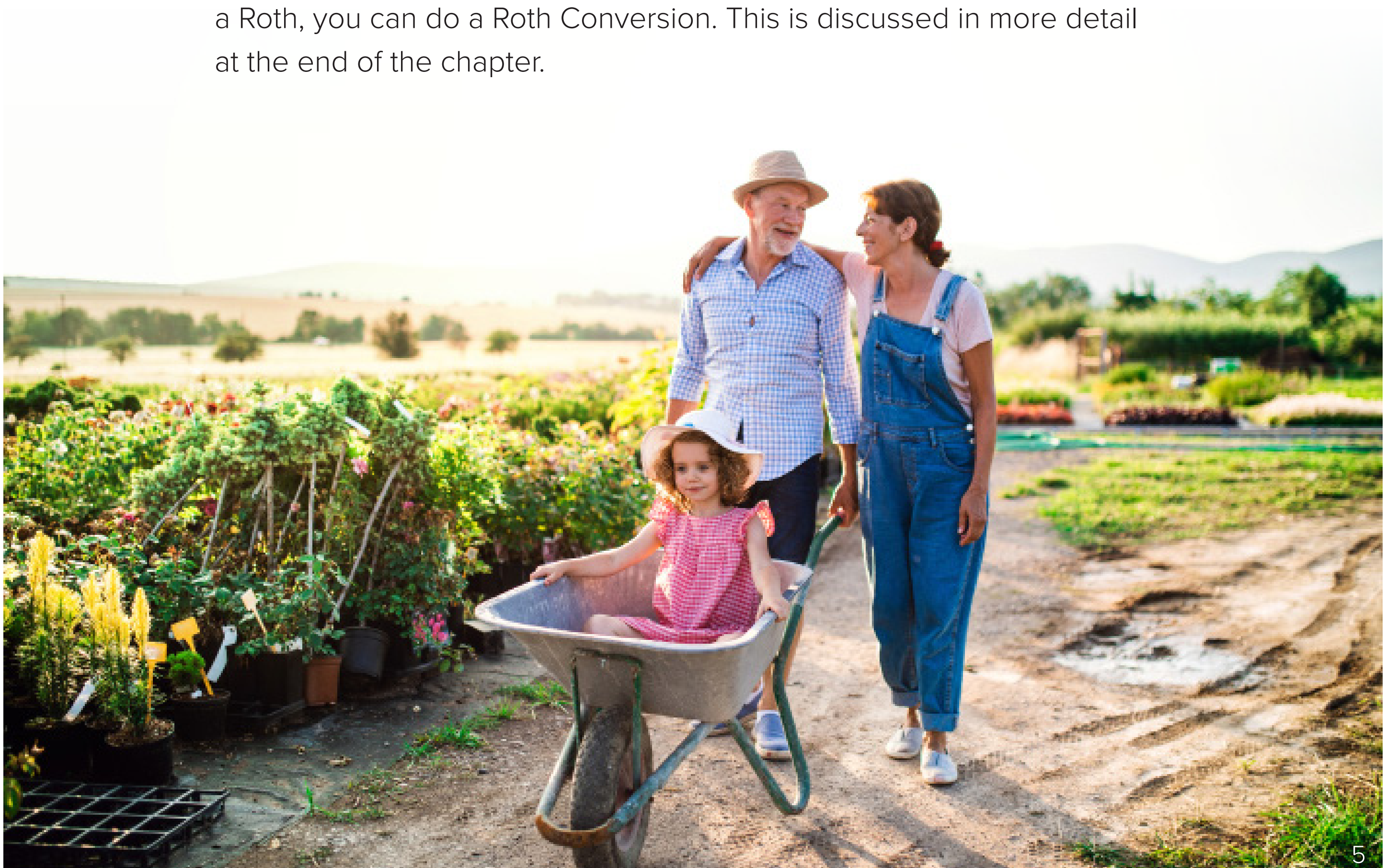
However, when transferring your IRA, it's important to keep in mind the type of account you already have. Certain accounts have restrictions about which type of account they can transfer into.

One of the restrictions involves Roth IRAs. If you already have a Roth IRA, you'll need to open a Roth IRA at IRAR (or else we can't deposit your funds). If you have a Traditional IRA, you could open and transfer into a Traditional OR into a SEP or even a SIMPLE if you meet the criteria. There are major penalties and headaches if you get this part wrong.

If you'd like more information on what types of plans can transfer into which accounts, you can find more information at our Self Directed IRA Accounts page.

Roth Conversions

If you have savings in a non-Roth IRA and you'd like to move them into a Roth, you can do a Roth Conversion. This is discussed in more detail at the end of the chapter.



ROLLOVER CHART

Roll From	Roll To: Roth IRA	Traditional IRA	SIMPLE IRA	SEP-IRA	Governmental 457(b)	Qualified Plan[1] (pre-tax)	403(b) (pre-tax)	Designated Roth Account (401(k), 403(b) or 457(b))
Roth IRA	Yes[2]	No	No	No	No	No	No	No
Traditional IRA	Yes[3]	Yes[2]	Yes[2,7], after two years	Yes[2]	Yes[4]	Yes	Yes	No
SIMPLE IRA	Yes[3], after two years	Yes[2], after two years	Yes[2]	Yes[2], after two years	Yes[4], after two years	Yes, after two years	Yes, after two years	No
SEP-IRA	Yes[3]	Yes[2]	Yes[2,7], after two years	Yes[2]	Yes[4]	Yes	Yes	No
Governmental 457(b)	Yes[3]	Yes	Yes[7], after two years	Yes	Yes	Yes	Yes	Yes[3,5]
Qualified Plan[1] (pre-tax)	Yes[3]	Yes	Yes[7], after two years	Yes	Yes[4]	Yes	Yes	Yes[3,5]
403(b) (pre-tax)	Yes[3]	Yes	Yes[7], after two years	Yes	Yes[4]	Yes	Yes	Yes[3,5]
Designated Roth Account (401(k), 403(b) or 457(b))	Yes	No	No	No	No	No	No	Yes[6]

[1] Qualified plans include, for example, profit-sharing, 401(k), money purchase, and defined benefit plans.
[2] Only one rollover in any 12-month period.
[3] Must include in income.
[4] Must have separate accounts.
[5] Must be an in-plan rollover.
[6] Any nontaxable amounts distributed must be rolled over by direct trustee-to-trustee transfer.
[7] Applies to rollover contributions after December 18, 2015. For more information regarding retirement plans and rollovers, visit Tax Information for Retirement Plans.

*This chart also applies to IRA transfers. Take account type into consideration when transferring retirement funds, especially between providers.

The Process: Transfer to a Self-Directed IRA

Once you're ready to transfer your funds, start the transfer process by completing and submitting an IRAR Transfer Form. You will also need to submit an account statement from your previous custodian dated within the last six months.

TIP:

To speed up the process, you can submit your transfer form with your account application. That way, the team can start working on your transfer as soon as we've opened your new account.

We can't send the transfer of funds request to your existing custodian until your new account has been established at IRAR, so don't wait on that part. If there's a delay with your new account, there will be a delay with your transfer.

To transfer your account to IRAR, we need:

- An established new account at IRAR
- An Account Transfer Form
- A copy of your most recent account statement from your current custodian

The paperwork is the same whether you're transferring cash, other assets, or both. As soon as we have all the paperwork, we'll send the request to your current custodian. Check with them directly to see if they accept fax transfer requests— this can significantly speed up processing.

Sometimes after we submit your request to your custodian, we may not hear from them at all. We will notify you via email if we haven't heard from them.

We do our best to keep track of pending transfers, but you'll have to follow up with your custodian directly to figure out why they haven't moved your assets. We can't do this for you. Your previous custodian generally **won't** give us any information on the status of your transfer since we aren't the owner of the account— you are. If we hear anything from them regarding your account, we will pass it along to you, but it's up to you to follow up with them directly to inquire about any holdups.

Transfer Instructions and Terminology

As you complete the transfer form you may come across terms you are not familiar with. It's important to know these terms because this is how you will indicate the type of transfer you want to conduct. Here are some of the most common terms and what they mean:

Full Transfer Requests

A full transfer is when you want to move your entire account to IRAR in cash. It's a pretty straightforward process: Fill out a transfer form, include a recent account statement from the account being transferred, and submit. Your funds should arrive within a couple of weeks.

If you currently hold any *non-cash assets* in your account and want to transfer them as cash, you need to fully liquidate them before you submit your request to IRAR. If not, your current custodian will reject the transfer and you'll have to start the process over again (this includes Brokerage IRAs). If you're looking to transfer both cash and assets without liquidating, you'll want to do a full transfer in-kind.

Full Transfer of Assets In-Kind Requests

If you're transferring your entire account without liquidating any assets, that's called a full transfer of assets in-kind. In-kind in this situation means "without change". The assets are transferred as-is to your new self-directed IRA.

Deeded assets like real estate will need to be reregistered in the name of your new IRA. IRAR doesn't create deeds or reregister assets for you, but there are many resources online and plenty of companies willing to walk you through the process. Some will even file the updated deed with the county for you.

Reregistering Your Real Estate

Until your deed is reregistered with the county, as far as they know it's still owned by your old IRA. Sometimes investors skip this step, and it can make selling or distributing the asset down the line a major pain, so don't forget to reregister your deed.

When transferring deeded assets like real estate from one of your retirement accounts to another, the quickest and easiest way to do this is through a Quitclaim Deed (similar to transferring between individuals, since your IRA is the previous owner). There are ways to draft this up yourself, but services exist to assist as well. A warranty or Grant Deed is also acceptable but are typically more complicated and time-consuming to draft.

Be sure to have the new asset correctly vested in the name of your IRA and filed with the appropriate offices. So, the new deed would show: **IRAR Trust FBO Client Name and New IRA Account Number.** Once created, you'll need to file this with the county. Additional paperwork may be needed, depending on the county. Call your local office to confirm you are complying with all requirements.

Medallion Signature Guarantee

When transferring your account, your current custodian may ask you to get a Medallion Signature Guarantee. A Medallion Signature Guarantee is an authorized signature that guarantees securities and is used to protect against fraud. However, some custodians have started asking for medallion guarantees on transfers for non-securities and even cash (though this is not required or technically how the medallion is intended to be used).

IRAR doesn't require medallion signatures, except on securities. Check with your custodian to see if they'll require a medallion signature on your assets.

NOTE:

A Notary Public is not the same thing as a Medallion Guarantee and cannot be used in place of one when required.

Partial Transfer Requests

If you don't want to transfer your entire IRA to IRAR, you don't have to. You can transfer some of your cash and/or assets and leave the rest at your old custodian. Since there are no limits on the number of transfers, you can do it as many times as you'd like. If you need more funds later, you can repeat the transfer process at that time. Keep in mind that there may be fees associated with movement of funds or assets from your custodian to IRAR.

The process for a partial transfer is very similar to a full transfer, **except** you'll need to list and detail the assets you're intending to transfer explicitly instead of just including an account statement. If you're only transferring cash, list the amount in the space provided. If transferring some assets in-kind, list them specifically and fill out all information. If transferring real estate, you'll need to reregister your assets the same way you would for a full transfer in-kind.

For example: Say you have an IRA at another retirement provider that holds two real estate assets, cash, and some stock. If you wanted to transfer the real estate to IRAR but leave the rest of the assets at your current provider, you can. Just be sure to spell out which assets are moving to IRAR on your transfer form.

Once we have submitted the paperwork to your current custodian, we will wait for your custodian to assign ownership of your assets to your new IRA. Once they do, we'll "book", or deposit, them into your account.

Rollovers

IRA Rollovers are the movement of funds and/or assets to a new IRA at a different institution, generally from an employer sponsored plan like a 401(k). Sometimes called "rollover IRAs" when moving funds from a qualified plan to an IRA, they differ from transfers in a few ways.

Unlike transfers, this movement of funds is reportable to the IRS (both when it exits and reenters a retirement account). But don't worry— as long as your funds go back into another retirement account in a timely manner, you won't have any taxes or penalties.

Types of Rollovers

There are two basic types of rollovers, as defined by the IRS: **direct rollovers** and **indirect rollovers**.

The main difference between these two methods is how the funds arrive at your new custodian— either directly from your custodian's bank like a transfer, or from funds distributed and deposited back into your IRA by you.

To initiate a rollover, you need to complete your provider's forms to get the funds out of the account. You will also need to complete an IRAR Rollover Certificate Form to let us know from where and when the funds will be sent.

Direct Rollover

A **direct rollover** is when you move your funds directly from a previous employer-sponsored plan (like a 401(k), 403(b), 457(b), PS, MP, or DB plan) or an existing IRA to your new self-directed IRA at IRAR. In other words, a "direct rollover" is a movement of funds from one institution to another where the funds were sent via wire or by check made payable to your self-directed IRA. Usually, distributions from an employer-sponsored plan are subject to a mandatory 20% tax withholding, but a direct rollover avoids withholding.

If moving from an old employer's plan, there's no limit on the number of direct rollovers— so if you have multiple employer plans from old jobs, you can roll them all into one IRA. Direct rollovers are very common when switching jobs, sometimes without employees realizing that's what they're doing. If you've ever left a job and moved your old employer plan to your new plan, you did a direct rollover— and you didn't even know it! That's how easy it can be.

Direct rollovers are sometimes called a trustee-to-trustee rollover. They are a lot like an IRA transfer but with one main difference: Rollovers *are* reported to the IRS, both when the funds leave your account AND when they reenter the new account. This is how they know not to tax you— they see the funds leave and then they see them go into another account.

Indirect Rollover

An **indirect rollover** is when you rollover funds from one retirement account to another by distributing them to yourself and depositing them (rolling them back) into another retirement account within 60-days. You're taking possession of the funds personally, but they need to get back into a retirement account before the 60 days are up or else the funds will be taxed (and may be subject to penalties) as a distribution. These are often called 60-day rollovers because of this deadline. After the deadline, these funds would then be ineligible to be deposited back into a retirement account.

> **For example:** Say you take a distribution of $50,000 and deposit it into a personal bank account. Before the 60 days are up, you need to deposit the funds into a new (or back into the old) retirement account, otherwise those funds will be considered a distribution and subject to income tax and penalties.
>
> If you don't deposit that $50,000 (or only deposit part of it) into a retirement account before 60 days from the date you received the funds from your retirement account (not the day the funds leave the retirement account), it will be treated as a distribution. You'll owe income taxes on those funds (unless you have a Roth IRA— then only the gains may be taxable) and potentially be hit with an early distribution penalty, depending on whether the other required conditions are met.

REMEMBER:

To avoid being taxed, you must roll these funds back into a retirement account before the 60-day deadline.

With an indirect rollover from a 401(k) plan, taxes will be withheld before you get the check, since it's being treated as a distribution. This is important to keep in mind when calculating how much you will have in your account for the real estate purchase. If the check is addressed to your new custodian but delivered to you as the intermediary, it is treated as a direct rollover and no taxes are withheld.

Be sure to open your IRA *first*, before starting this process. See previous chapter.

NOTE:

For both a 60-Day rollover and a direct rollover to IRAR, you **must** initiate the process with your current custodian or plan administrator. You will need to complete their paperwork providing instructions on sending your funds or assets to IRAR.

No matter the type of rollover (as long as the value is over $10), your old custodian will send you and the IRS a form 1099R and IRAR (your new custodian) will send you and the IRS a form 5498. This shows the IRS that funds left a retirement account (1099R) and returned to a retirement account (5498). Keep these forms for your records and verify all information is accurate. If you notice any issues or errors, reach out to the issuing custodian to make a correction. If taxes have already been filed, you can file a correction directly with the IRS. Please keep in mind the filing requirements and timing for these forms are different. 1099R's are sent in January, and 5498's are sent in May.

One-Rollover-Per-Year Rule/Limits on Rollovers

Starting in 2015, you're allowed to make only one rollover from an IRA to another (or the same) IRA in any 12-month period, no matter how many IRAs you have. If you've already rolled over funds within that 12-month period, unfortunately you'll have to wait (or choose a different method), regardless of which account is rolling over the funds.

As stated before, in the case of a direct rollover from a retirement plan administrator to a self-directed IRA custodian, this does not apply.

The Process: Rollover Your IRA or Qualified Employer Plan

The process for a rollover to IRAR Trust Company is the same whether you're completing a direct or indirect rollover from either an IRA or a qualified plan. Most importantly, you'll need to have an established account with us and complete our Rollover Certification Form.

Be sure to open your account first, before starting the rollover process, so we have somewhere to deposit your funds when they arrive from your previous custodian. If you need more information on how to open an account with IRAR, see Chapter 5, *How to Open Your Self-Directed IRA for Real Estate Investments* for more details.

At IRAR there is a $30 fee to accept funds via wire, otherwise there is no charge for processing a rollover. However, if submitted via check there is a 5-business day hold before the money can be used. If doing an indirect (or 60-day) rollover, you'll need to get those funds to us within the 60-day window, or else your funds are not eligible to be rolled over and are considered a distribution, meaning you'll owe the IRS taxes (and possibly penalties) on the amount withdrawn.

Start Rollover with Your Previous Custodian

To move your funds to IRAR via rollover, you must have an established IRAR account. Then, contact your current custodian and fill out *their* forms. You submit those forms to them, and we wait for the funds to arrive. Be sure to reference your name and IRAR account number on the rollover being sent to us, so we know how to apply the deposit when it arrives.

NOTE:

Sometimes there are delays with your previous custodian, and generally IRAR is not notified of these delays. It's recommended you check in with your previous custodian after 2-4 weeks if your funds have not been deposited to your IRAR account.

All-Cash Rollovers

Rolling over your entire account in cash is called an "All-Cash Rollover". If you currently hold assets in your account but want to roll them over as cash, you'll need to liquidate those assets with your previous custodian before submitting the all-cash rollover request. This applies to Brokerage IRAs as well, which also must be liquidated if rolling over as cash. You must initiate this with your custodian, IRAR can't do it for you since you are the account owner and your

In-Kind Rollovers

If you want to rollover the assets in-kind, there is a little bit more that must be done. Like a transfer, the assets will be put into the name of the new IRA ("IRAR Trust FBO: client name IRA") and then officially booked into the account. Most of this is done behind the scenes, but if your IRA holds real estate or other deeded assets, you'll have to do some of this yourself.

Real estate and similar assets will need to be rerecorded with the county vested in the new account name. You (or someone you hire) will need to draft and file a quitclaim or warranty deed with the County Recorder's Office located in the county where the property is held. Typically, investors use a quitclaim deed during this process, but either is acceptable.

If you have any other questions about your assets or the process involved in moving them to IRAR Trust Company, please feel free to ask one of our qualified representatives— we'd be happy to help.

Differences Between Transfers and Rollovers

Now for the big questions: Why would someone pick a transfer or a rollover? How do you decide which is the right choice for moving your retirement fund?

It depends on your current plan, the account you want to open, and what you plan on doing with your funds once they arrive.

Transfers

Generally used to move IRAs (Traditional, Roth, SEP, and SIMPLE) from your current provider.

Pros:	Unlimited number allowed per year, not reportable to the IRS. Easy process that is mostly out of your hands.
Cons:	Generally slower, and you can end up waiting on your old custodian to move your money on their timeline.

Rollovers

Generally used to move qualified plans (such as 401(k), 403(b), 457(b), MP, or DB) from your current provider.

Pros:	Usually faster than a transfer, which can be good if you're in a rush. You also get the option of holding the funds for 60 days (if taking an indirect rollover) before rolling them back into an IRA.
Cons:	You can only take one indirect rollover from an IRA per 12-month period, and you can only hold your funds for 60 days. If you don't get those funds back into your account within the time limit, you can end up paying taxes (and possibly penalties) on your funds. If moving a qualified plan, a mandatory tax withholding will occur for indirect rollovers.

Either option could be the right choice, depending on your investment strategy and account type. IRAR can't make that decision for you. But if you know the differences before you start, you can make an informed decision every step of the way. As always, we recommend consulting with a financial professional before making any major investment decision. Feel free to contact us if you have any questions.

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Timeline

Moving the funds from your current custodian to IRAR Trust Company can take some time, depending on the custodian and the liquidity of your assets, so it's best to start moving funds as soon as you can. You want to make sure that your IRAR account is funded before you make an offer to buy real estate. That way you ensure there are no delays during the purchase process. It can be as fast as two days or as long as two weeks before your funds arrive, depending on your previous custodian. Keep that in mind when planning your investments and give yourself extra time in case of delays you can't control.

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Roth Conversions

If you're moving funds from a non-Roth account to a Roth, you'd do this through a Roth conversion. If currently held at another custodian, you'll need to first move your account to IRAR with one of the above methods. The same rules and restrictions apply as with a transfer or rollover. You can submit all your forms together for faster processing.

As referenced briefly in the last chapter, a Roth conversion is the process where you convert cash and assets from a non-Roth account and move them into a Roth IRA, paying the associated taxes you would have if contributing to the Roth account initially. If you have funds or assets in a non-Roth IRA (Traditional, SIMPLE, SEP) and want them in a Roth, this is how you'd get them there.

Because of income limitations, you may not have been able to open a Roth account with a contribution. Doing a Roth conversion is a way to open a Roth despite the income restrictions. This is also sometimes called a "backdoor Roth IRA" since you are getting assets in a Roth even if you don't meet the eligibility requirements to contribute. The conversions don't count against your yearly contribution limits, so you'd still be able to contribute as normal (if eligible), no matter how much you've converted, and there are no limits to the number of conversions you can do.

The Roth Conversion Process: Moving Your Non-Roth Assets to a Roth IRA

If you're looking to convert your self-directed IRA to a Roth, first you need to move the account to IRAR. Once all your assets have arrived, we can start the process.

To begin the conversion process, we need a few things:

- A completed IRAR Roth Conversion form
- A completed IRAR Account Application (if opening a new Roth IRA)
- A completed Fair Market Valuation form for each asset being converted (if applicable)

You'll need to fill out IRAR's Roth Conversion form, detailing exactly what you are planning on converting. If you don't already have a Roth IRA at IRAR to move your converted funds to, you'll need to open one, and you'd do that by completing a new account application. Submit that with your conversion form.

You can convert either all or part of your existing retirement account. You'll need to complete a Fair Market Valuation form for every asset you're converting (unless you are just converting cash) and include that with your Roth Conversion form. If converting more than one retirement account, use a separate form for each. With a partial conversion, be sure to detail exactly what you're planning to convert, with cash totals and assets spelled out explicitly in the space provided.

TIP:

If you don't already have a Roth account, make sure your new IRA is open, or that you've completed the account application and submit it with your Roth Conversion form. This is the most commonly missed part of the process. Without this authorization to open an account for you, the process is on hold.

Reregister Assets with New Account Number

When converting non-cash assets, they'll need to be reregistered into the name of your new Roth IRA. This process is basically the same as transferring assets to IRAR. For most assets, this process happens behind the scenes and requires little to no input from you. However, for deeded assets you need to get a little more involved. These must be reregistered with the county where the asset is located.

The quickest and easiest way to do this is with a quitclaim deed, since you're moving the assets between accounts owned by you, but you could also use a warranty or grant deed if desired. Then you must file the updated deed with the county. There may be other requirements, depending on the specific county your property is in. We recommend reaching out to the relevant office directly and confirming any requirements.

Federal Tax Withholding

The IRS requires IRAR to withhold 10% of the funds being converted to a Roth IRA, unless you tell us to do otherwise. You can also have IRAR withhold more than 10% for tax purposes, if you anticipate a need to do so.

If you choose not to withhold federal taxes, there can be tax implications. If you don't withhold, then pay the taxes owed with personal funds and withdraw funds from the traditional IRA to pay the conversion tax, you could be subject to penalty. Funds used to pay the conversion tax are not actually converted to the Roth, so they will be subject to the 10% penalty if you are under 59.5, in addition to income tax. The IRS will see this as an early distribution.

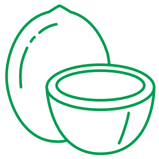
If nothing is indicated, IRAR will default to withholding 10%.

State Tax Withholding

We can also withhold state taxes[1] for residents of the state of California. If nothing is indicated, we default to no withholdings.

If you don't live in the state of California, IRAR won't withhold state taxes from your conversion. We recommend consulting a tax professional to determine any additional tax obligations.

[1] IRAR can only withhold taxes from cash assets held in your self-directed IRA. If your IRA holds only non-cash assets, with can't make these withholdings for you.



In a Nutshell

To invest with a self-directed IRA, you need funds in your account. The fastest way to get them there is to move them from an existing account, either through a transfer or a rollover. If you have non-Roth funds and you want them in a Roth, you can do that too through a conversion. If you don't already have retirement funds—contribute.

Do you have any questions about the how, why, what, or when?

IRAR is here, please reach out. We'd love to help you through the process!

READY FOR THE NEXT CHAPTER?

CHAPTER 7:

Investment Strategies for Your Self-Directed IRA