



# **Self-Directed Retirement Accounts & 1031 Exchange Investments**

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## Self-Directed Retirement Accounts

### ● What is a Self-directed Account?

- You may choose any allowable type of asset
  - Includes non-traditional assets like real estate
  - Offers you true diversification
- You manage your retirement plan investments
- You have control

# Types of Retirement Plans

- **Traditional IRA**
- **Roth IRA**
- **SEP/SARSEP/SIMPLE**
- **401 k – prior employer**
- **403 b – prior employer**
- **TSA – prior employer**
- **TSP – prior employer**
- **Keogh**
- **Solo 401(k)**
- **401(k) plans**



# Some Investment Options

- **Single/Multi-family homes**
- **Vacation investment property**
- **Tax Liens**
- **Raw Land/Building Lots**
- **Commercial Buildings**
- **Real Estate Syndications**
- **Mortgages/Loans**
- **Private Business Investments**
- **Operating Businesses**
- **Foreign Currency/Options/Futures**
- **Stocks/Bonds/Mutual Funds**

# Guidelines for Self-Directing

- **Administrative requirements**
  - Annual valuation of plan
  - Annual report to IRS (5498)
  - Books and records
  - State filings
  - Tax returns



# Guidelines for Self-Directing

## **Prohibited Assets:**

- **Life Insurance Contracts (except Solo 401(k))**
- **Collectibles (i.e. rugs, works of art, stamps, coins)**

## **Prohibited transactions:**

- **Transactions not for the exclusive benefit of the account**
- **Can't borrow from Retirement Account**
- **Can't pledge Retirement Account assets to secure loan**
- **Can't utilize credit or guarantee to obtain loan for account**
- **Can't benefit any disqualified person**



# Guidelines for Self-Directing

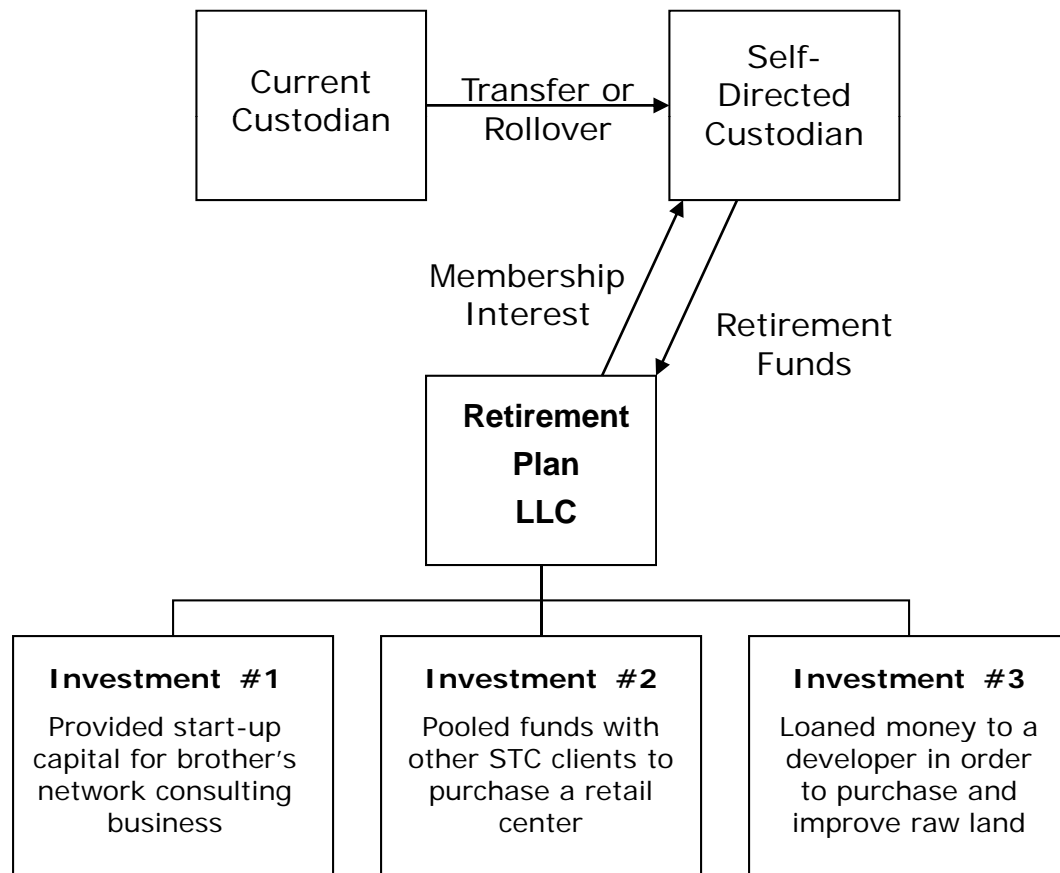
## Disqualified persons:

- “You”
- **Certain family members**
  - Ascendants
  - Descendants
  - Lateral family members are not disqualified
- **Company if you have a majority share**
- **Company if you are officer, director, HCE**

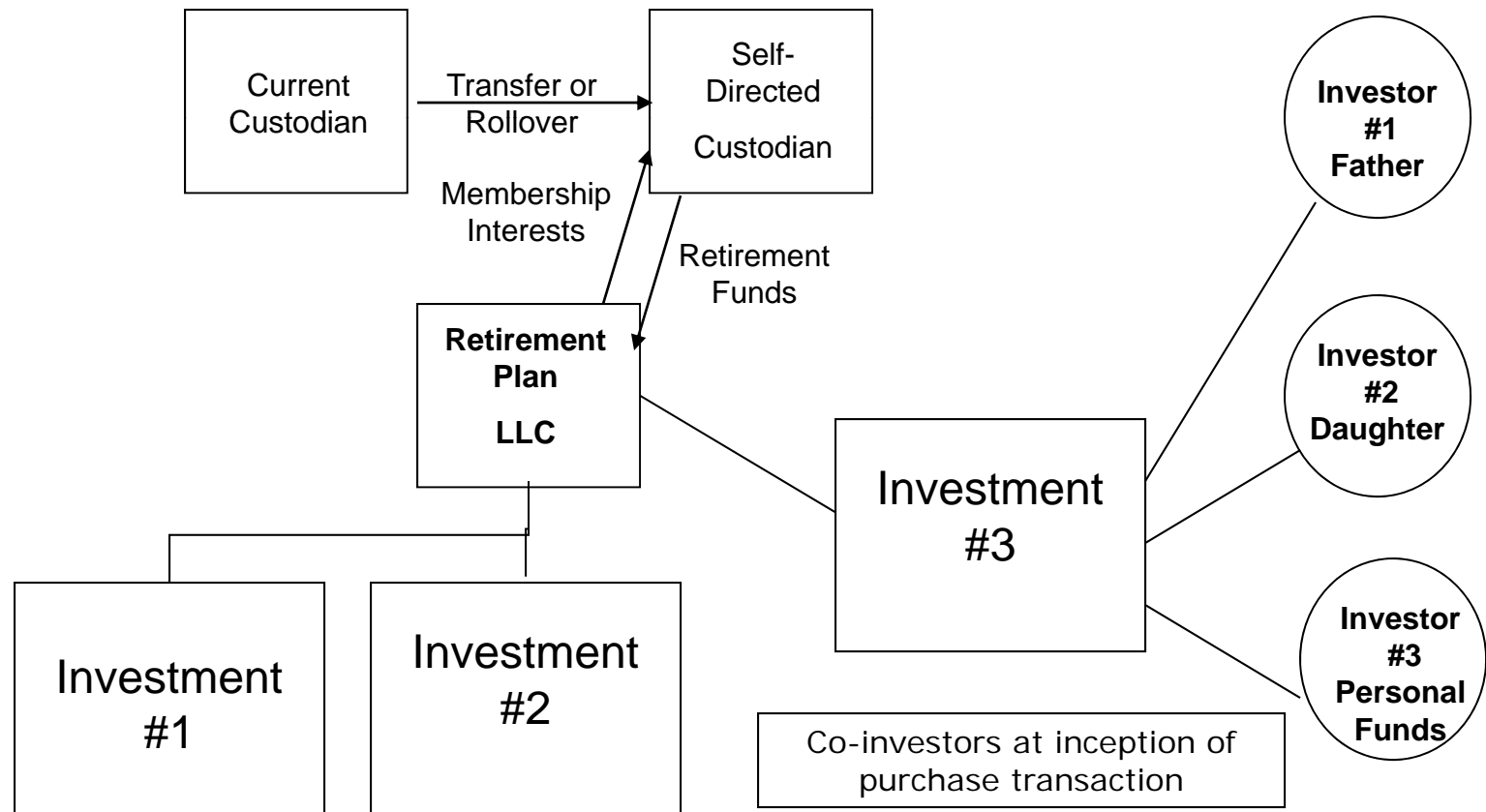
## Benefits of the LLC Structure

- **Offers maximum flexibility**
- **Provides additional asset protection**
- **‘Checkbook control’ over retirement funds**
  - **Immediate response to investment opportunities**
- **Simplifies asset titling**
- **Ease of pooling**

# IRA LLC Structure



# Retirement Plan LLC Structure



## Security Trust's Full-Service Approach

- Retirement Plan LLC structure setup
- Protected 'checkbook control'
- CPAs & attorneys to answer technical questions
- Guidance on transaction compliance
- Handle all the 'back office' support
- Maintain LLC financial statements
- Supervise regulatory reporting
- Oversee annual valuation

# 1031 Exchange Investments

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## IRC Section 1031

Allows an owner of business or investment property to sell the property and purchase “like-kind” property without incurring any immediate tax liability

# Capital Gains Taxes & 1031

- 15% Federal Capital Gain Tax for assets held > 1 year
- State Capital Gain Tax
- Depreciation Recapture Tax



## Determining Your Basis

- Capital gains taxes are deferred until the replacement property is sold at a future date.
- With proper estate planning, this tax liability is forgiven upon the death of the taxpayer as the heirs get a stepped up basis (FMV at death).

## Benefits of a 1031 Exchange

- No immediate tax obligation
- Improved cash flow by deferring payment of capital gains taxes.
- Allows for financial strategies to be implemented such as consolidation, diversification, and return on equity.

# Guidelines to Follow Under Safe Harbor

- Qualified Intermediary
- Like-Kind & Eligible Property
- Avoiding Taxable Boot
- Identification & Exchange Periods

## The Qualified Intermediary

- Independent third-party who has not acted as property owner's attorney, accountant, broker, or employee within the last two years.
- QI holds the sales proceeds in order to avoid constructive receipt by the property owner

## Like Kind and Eligible Property

Property held for trade or business use or for investment by the taxpayer.

What does not qualify:

- Personal residences
- Developed lots held primarily for sale
- Property to be resold immediately after completion of improvements
- Partnership interests and stock

## How to Avoid Taxable Boot

All relinquished property sale proceeds must be used in the purchase of the replacement property.

# Identification & Exchange Periods

- 45<sup>th</sup> day
- 180<sup>th</sup> day
- Calculated from the date the taxpayer *transfers* the relinquished property

# Methods of Identification

- 3 Property Rule
- 200% Rule
- 95% Rule



## Investing Personal Equity with Retirement Funds

- Utilizes Tenant-in-Common flexible Ownership
- Allows for Deeding to bifurcate deals
  - e.g. 40% IRA LLC, 60% 123 Main Street Investments LLC

# Syndicating Real Estate Investments

- Utilizes Tenant-in-Common flexible Ownership
- Allows for Retirement and 1031 Proceeds to be invested

## Self-directed & 1031 Differences

- Disqualified Persons
- Unrelated Business Income Tax (UBIT)
  - Debt-financed properties
- Capital gain tax deferral unnecessary in retirement account

## How can Security Trust serve you?

### Do you...

- want to open a self-directed retirement account now?
- have clients or colleagues who would be interested in self-direction?
- need more information?

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