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## **Who Can My Self-Directed IRA Transact With?**

### **Prohibited Transactions Explained**

# What Are Prohibited Transactions?

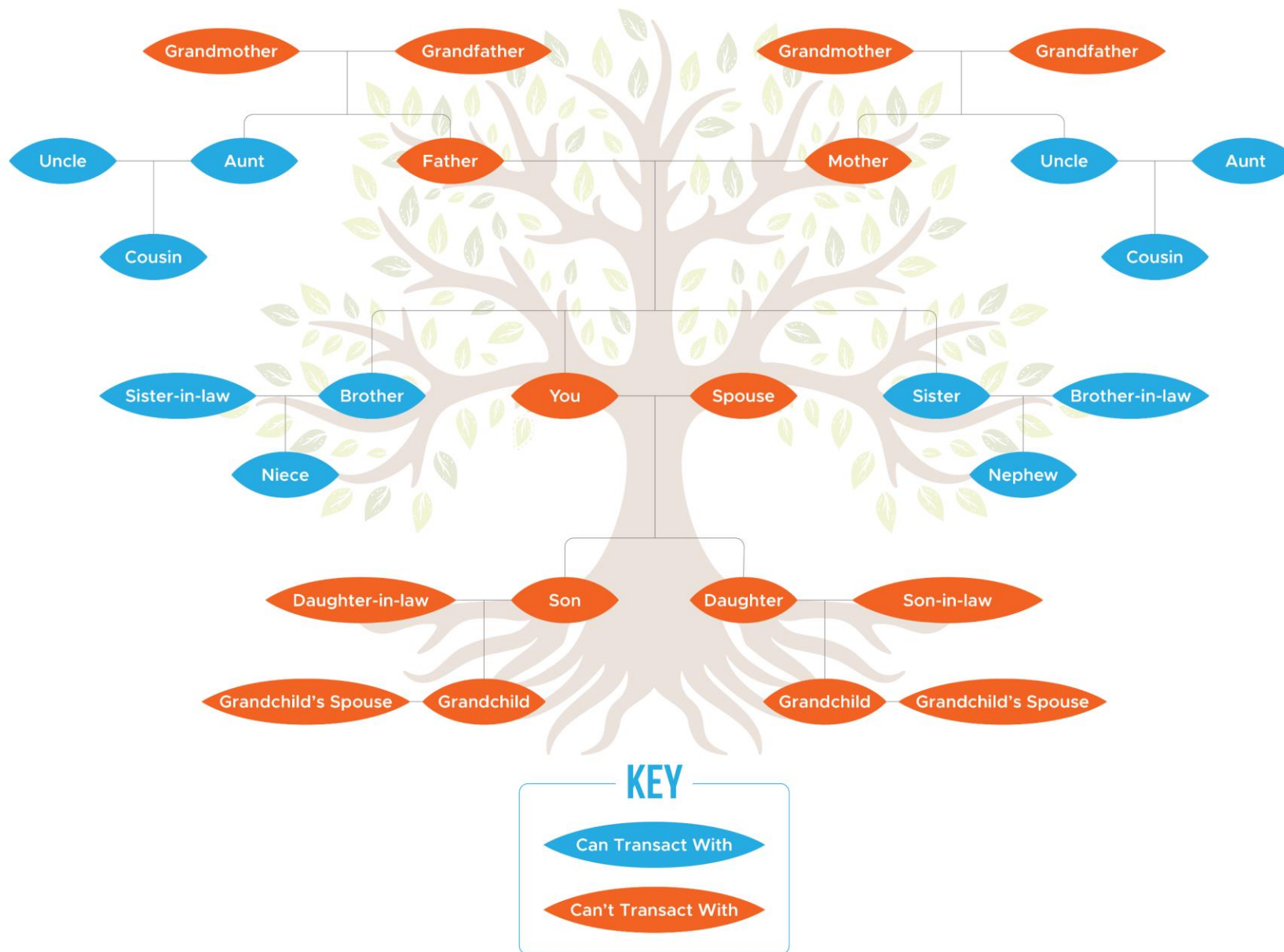
**Prohibited transactions are transactions that involve the account holder or other disqualified persons benefitting from the IRA's investments.**

Per Se Prohibited Transactions

Extension of Credit Prohibited Transactions

Self-Dealing Prohibited Transactions

## DISQUALIFIED PERSONS FAMILY TREE WHO CAN YOUR SELF-DIRECTED IRA TRANSACT WITH?



# Additional Disqualified Persons

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- The fiduciary of the Self-Directed IRA and anyone else that provides services to the account/plan.
- Any entity that is owned 50% or more by disqualified persons.

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# Per Se Prohibited Transactions

A per se prohibited transaction takes place when an IRA transacts with a disqualified person.

**Here are some common examples of per se prohibited transactions:**

- An IRA owner purchases property that they already own personally with retirement funds.
- An IRA owner leases their IRA-owned property to their son or daughter.
- An individual rents their IRA-owned property to a company that they personally own 50% or more of.

All the above transactions are perfectly permissible when performed with third parties.

# Extension of Credit Prohibited Transactions

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The IRS allows IRA owners to obtain financing for investment purposes. However, loans issued to an IRA can only be guaranteed by the asset or collateral being purchased and not by an IRA owner's personal guarantee.

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## A common example of an extension of credit prohibited transaction:

- An IRA owner is seeking to purchase a property and does not have enough capital. The IRA owner approaches a local bank and obtains a loan issued to the IRA. The borrower then personally guarantees repayment of the loan. While the borrower did well by borrowing from a third party and attributing the loan to their IRA, they should not have personally guaranteed the loan, as they were providing a personal benefit to their retirement account.

# Self-Dealing Prohibited Transactions

Self-dealing prohibited transactions occur when a disqualified person receives a personal benefit from their IRA's investments.

## Common examples of self-dealing prohibited transactions:

- An IRA owner purchases a property overseas to be used as a vacation rental. The IRA owner travels to the investment property and stays there free of charge. The IRA owner received a personal benefit from their IRA, which would be considered a self-dealing prohibited transaction.
- An IRA owner is considering several investment opportunities and decides to lend IRA money to an entity in which they personally have a minority ownership interest. They feel that this is a sound investment, as they trust the creditworthiness of the borrower, and the IRA will receive interest payments that are above the market rate. While the transaction seems to be within IRS guidelines because the borrowing entity is not a disqualified person, the IRA owner may be violating prohibited transaction rules if the interest rate charged is higher than what is commercially available.



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# What Questions Do You Have About Prohibited Transactions?

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