

# Self-Directed IRAs: Account Basics and Getting Started



# Self-Directed IRAs: Account Basics and Getting Started

Are you tired of hedging your retirement savings on the stock market?

Do you want to:

- **Take control of your financial decisions?**
- **Retire on time?**
- **Build generational wealth?**
- **Protect your earnings from taxes?**
- **Diversify your portfolio?**

Then a self-directed IRA is perfect for you.

Self-directed IRAs (SDIRAs) offer unparalleled freedom and diversification to help you take control of your retirement. Combined with the tax advantages of a Traditional or Roth IRA, self-directed IRAs offer everyday investors the ability to invest their retirement savings in tangible assets that beat out inflation and retain their value, without losing money to taxes.

If you've been thinking about rolling over your retirement plan to an SDIRA or funding a new account, this guide will explain everything you need to know about starting a self-directed IRA, funding your account, and executing your first transaction.

## What Is a Self-Directed IRA?

**Definition:** A self-directed IRA is a tax-advantaged account that allows investors to amass wealth for retirement using alternative investments not available to Traditional or Roth IRA accounts.

**Similarities to Traditional IRAs:** Self-directed IRAs share some of the fundamental features of Traditional or Roth IRAs, including eligibility requirements and **contribution limits**. SDIRAs are structured either as a Traditional or Roth IRA, but with the benefit of greater investor freedom.

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**Alternative Assets:** Traditional IRAs and Roth IRAs generally rely on stocks, bonds, and mutual funds for growth. Self-directed IRA owners can invest their money in those financial staples, but an SDIRA opens up several other investment channels, including:

- Cryptocurrency
- Precious metals
- Real estate
- Private Equity
- Promissory notes
- Tax liens
- Business entities, such as LLCs and LPs
- Private placement

**Custodial Administration:** SDIRAs are administered through licensed custodians, which specialize in self-directed IRAs. Custodians are responsible for ensuring regulatory compliance and executing transactions. Most traditional depositories that specialize in retirement planning don't offer self-directed investing.

## Alternative Assets Available to Self-Directed IRAs

- |                       |                     |                        |
|-----------------------|---------------------|------------------------|
| 1. Real Estate        | 6. Startups/LLCs    | 11. Futures            |
| 2. Bonds              | 7. Promissory Notes | 12. Private Placements |
| 3. Stocks             | 8. Cryptocurrency   | 13. Mutual Funds       |
| 4. Non-Recourse Loans | 9. Precious Metals  | 14. ETFs               |
| 5. Private Equity     | 10. Tax Liens       | 15. Foreign Currency   |

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# Benefits of a Self-Directed IRA

- **High-Risk, High-Reward Asset Investing.** SDIRAs offer all of the same asset classes of a Traditional or Roth IRA, with the addition of many alternative asset classes, including precious metals, cryptocurrency, real estate, etc. These assets often come with a higher amount of risk but could yield greater gains in the long run.
- **Diversification.** SDIRAs make it easier to round out your investment portfolio and create stability against an often volatile stock market. Many of these assets also provide a hedge against inflation that allows you to protect the value of your contributions since you can't access your funds until retirement age.
- **Tax-Deferred.** Self-directed IRAs offer Traditional and Roth account options to help you defer your tax burden or make investment decisions with after-tax dollars that are not taxed at withdrawal.
- **Control Over Investments.** Investing in assets like real estate and businesses using an SDIRA gives investors more hands-on control over their investments.
- **(Optional) Checkbook Control.** You can form and manage your account under an LLC. Doing so gives you checkbook control and eliminates unnecessary fees and transaction delays.

## Basic SDIRA Rules and Eligibility

Tax Structure	Traditional (tax-deferred) or Roth (after-tax)
Contribution Limits	\$6,500 for 2023 (+ a \$1,000 catch-up contribution for individuals 50 or older)
Withdrawal Age	59½ (+ 5-year holding period for Roth IRAs)
Withdrawal Penalty	Traditional: Withdrawals are taxed as gross income + a 10% additional penalty (penalty is void for certain circumstances)  Roth: Contributions are not taxed; earnings are subject to 10% tax.
Income Limits	Traditional: None  Roth: \$153,000 single filers/ \$228,000 married couples (2023)
Required Minimum Distributions	Traditional IRA: Age 73  Roth: None

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## Understanding the Role of Your Custodian

Custodians are certified institutions charged with safekeeping your investments and complying with all tax laws. Unlike money managers or accountants, custodians are primarily tasked with reporting your investments to the IRS and holding your account's money.

### Custodial Responsibilities/ Client Responsibilities

<b>Custodian</b>	<b>Client</b>
Custody funds	Decide on investments
Administer transactions	Perform due diligence
Maintain transaction history	Fund account
Perform annual tax reporting	
Ensure IRS compliance	

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## Common Custodial Fees

- **Total Asset Value:** When custodians charge their fees based on total asset value, they charge you a percentage of your SDIRA's total worth. Custodians who charge this fee typically place assets into categories based on their value and charge a fee per group. Depending on the size and number of your investments, the average number of category groups is usually 4-5.
- **Per Asset Basis:** Under this agreement, the custodian will charge a certain amount (either a percentage or a flat fee) associated with each asset. The price range may change based on the custodian, so be aware that this number could fluctuate depending on whom you choose.
- **Flat Fee:** Some custodians choose to charge clients a flat fee that does not change based on assets or their value. This fee may be preferable in some situations, especially if you own many assets or a large portfolio.

## Additional Fees

In addition to the standard IRA custodial fees, there are other fees that you should keep an eye on. While these fees may be unavoidable, you should still be aware of how much money you're spending on your account.

- **IRA Transaction Fees:** Fees are charged by the custodian and the bank each time a transaction is completed.
- **IRA Service Fee:** Fees charged periodically for managing the account.
- **Account Research Fee:** Fees charged for researching information for your account. In many cases, you can do this research yourself.
- **Account Closure Fees:** Fees charged for closing or transferring the account.

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## 3 Steps to Defend Against Fraud

Self-directed IRAs are a relatively new and unknown investment field, which has led to lots of fraud in recent years. While self-directed IRAs are relatively secure, it's still keen to protect yourself against fraud. Follow these steps to reduce your risk of fraud.

1. **Choose a Trusted Custodian.** Select a reputable custodian with a solid track record. Read third-party reviews and consult with individuals who have experience with that custodian.
2. **Ignore Unsolicited Offers.** There is no shortage of scammers targeting SDIRA investors with promises of unrealistic returns. Ignore all such solicitations, including high-pressure sales tactics or requests for immediate decisions. Conduct independent research and verify the credentials of your custodian.
3. **Secure Personal and Financial Information.** Protect against identity theft and unauthorized access to your SDIRA by using strong passwords and enabling two-factor authentication if available. Avoid using public Wi-Fi networks for SDIRA access and, instead, use your own private home Wi-Fi network. Never provide account details or social security numbers to third-party entities.

## Prohibited Transactions

While self-directed IRAs offer the most investor freedom of any other account, there are certain transactions that are prohibited by the IRS your custodian will warn you about. Any action where the account holder can benefit immediately from any IRA deals can result in a tax penalty or the immediate disqualification of the account.

### Self-Dealing

Account holders cannot benefit immediately or directly from any account investments.

**Example:** If you were to invest your IRA into a business, you cannot be the lead shareholder or the owner.

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## Disqualified Individuals

“Disqualified individuals” are anyone who may stand to benefit from the account in the future or anyone who has been named a benefactor during your passing. Any disqualified individual cannot benefit from the assets owned by your SDIRA, including using any rental properties, taking private loans, or owning company stakes.

Examples: Spouses, grandparents, parents, children and their spouses, and grandchildren and their spouses. Other disqualified individuals outside of the family may include trust members, IRA custodians, an account attorney, or other fiduciaries.

## Prohibited Investments and Assets

**Examples:** Precious metals, collectibles such as artwork, rugs, antiques, most metals, gems, stamps, coins, alcoholic beverages, life insurance, and “tangible properties.”

## How to Open a Self-Directed IRA?

Find a Self-Directed IRA Custodian	Fund Your Account	Invest Funds
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### 1. Find a Self-Directed IRA Custodian

Look for a self-directed IRA custodian that specializes in the assets you want to invest with and offers the tools you need to succeed.

- **Asset Specialization:** Does your custodian specialize in the assets you want to invest with (i.e., real estate, gold, Bitcoin, etc.)?
- **Fee Structure:** Each custodian has its own fee structure you should familiarize yourself with before making a decision.
- **Experience:** How much experience does the custodian have with IRAs and the investments you want to target?

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- **Reputation:** What type of reputation does the custodian have among investors? Can you trust them?
- **Resources:** Many custodians offer investment tools to assist new investors, such as Horizon Trust's Investment Corner.
- **Certifications:** Is your custodian certified to engage in the transactions I want to perform?

## 2. Fund Your Account

There are several options to fund your account and start executing transactions.

- **Contributions:** Similar to a Traditional or Roth IRA, you can fund your SDIRA through annual contributions, subject to IRS limits.
- **Direct Rollover:** You can transfer or rollover funds from an existing IRA, 401(k), 403(b), or other eligible retirement account into your SDIRA. This process is often called a "direct rollover" and can be done without incurring taxes or penalties if done correctly.
- **Indirect Rollover:** Funds from another account are distributed via a lump sum that must be deposited into the account within 60 days to avoid a tax penalty.
- **Transfers:** You can transfer funds from one SDIRA to another without tax consequences. This can be useful if you want to move your SDIRA to a different custodian or take advantage of different investment opportunities.
- **Inheritance:** If you inherit an IRA from a spouse or non-spouse, you can fund your SDIRA with the inherited assets. The rules and tax implications can vary depending on your relationship with the original account holder.

## 3. Invest Funds

Finally, it's time to start executing transactions. All you need to do is perform the proper due diligence and inform your custodian to execute the proper transaction.

(Optional) You bypass your custodian by opening an LLC within your SDIRA and executing what is called "checkbook control." For more information, download our Advanced Guide on Checkbook Control or read this [blog](#).

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# Self-Directed IRA FAQs

## Are Self-Directed IRAs FDIC Insured?

Self-directed IRAs are **not** FDIC-insured. The Federal Deposit Insurance Corporation (FDIC) insures “traditional deposit accounts.” These accounts typically include funds in a checking or savings account, money market deposit accounts, and certificates of deposit (CD).

However, if funds from your self-directed IRA are housed in one of the accounts listed above, and an FDIC-insured financial institution holds the account, then your funds are likely insured by the FDIC.

For the most part, the FDIC does not cover many types of investment accounts commonly found under the SDIRA umbrella.

The list of excluded investments includes stocks, bonds, and mutual funds; government, municipal, and U.S. Treasury securities; cryptocurrencies, etc.

## Do You Pay Taxes on a Self-Directed IRA?

SDIRAs are tax-advantaged accounts similar to Roth and Traditional IRAs. The tax implications of an SDIRA depend on the type of SDIRA account you hold.

When you open a self-directed Traditional IRA, you reap the benefits upfront. Your account will grow tax-deferred. Once you hit retirement age (59 ½, according to the IRS), you can withdraw funds without penalty, but you must pay taxes on your withdrawals. Tax rates for Traditional IRAs are based on your income, so the amount you pay will depend on your income.

With self-directed Roth IRAs, any contributions get taxed upfront. Withdrawals made before age 59 ½ will be penalized, much like they are for Traditional IRAs, but after that point, you won't need to pay taxes on withdrawn funds.

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## Can My Bank or Brokerage Firm Act As a Self-Directed IRA Custodian?

There are no rules that ban a brokerage firm from acting as a custodian, but most well-known investment brokerages don't offer true self-directed IRA accounts. The same is true for many banks. In some cases, those financial organizations will allow investors to choose the stocks, bonds, or mutual funds they want to invest in, but options are typically limited to the organization's portfolio.

Trust companies mostly manage true SDIRAs and make it possible for investors to choose from various alternative assets, including cryptocurrencies, promissory notes, and real property.

## Do Self-Directed IRA Custodians Provide Investment Advice?

No, an SDIRA custodian is a passive entity that acts as a third party between you and eligible investment opportunities. Therefore, they will **not** advise you on how, when, or where to invest your funds. Instead, they hold your accounts, ensure that those accounts adhere to federal requirements, provide you with the tools and resources necessary to manage your own investments.

## Ready to Open a Self-Directed IRA?

If you've decided that a self-directed IRA is right for you, contact one of our concierge team members at Horizon Trust to start the process of opening an account.

Call us at 888-205-6036 or [book an appointment online](#). We will walk you through all of the steps and provide complete transparency on fees, rules, and regulations.

Don't wait; the earlier you act, the more you can build toward your retirement.



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