



TAX STRATEGIES FOR INVESTING YOUR IRA INTO FINANCED REAL ESTATE & MORE SMART FINANCIAL PLANNING

WEDNESDAY, FEBRUARY 1st, 2006

HOSTED BY TOM ANDERSON, PRESIDENT & CEO, PENSCO TRUST COMPANY

SPECIAL GUESTS:

John Williamson, Managing Partner, Harb, Levy and Weiland LLP

Barry C. Picker, CPA/PFS, CFP, Picker & Weinberg, CPAs, P.C.

Franklin H. Federmann, MS (Taxation), CFE, CPA / PFS President of Federmann Financial Advisors, Inc.

PENSCO Trust does not give legal or tax advice. We do our best to understand and educate about building wealth through self-directed IRAs. However, you are advised to consult your own legal and tax advisors for specific guidance regarding your investments. This document is for educational purposes only.

Guest Speaker:
John Williamson, Managing Partner,
Harb, Levy and Weiland LLP



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IRA investments in Real Estate Using Leverage



- Why should an investor consider this?
- Is this new?
- Are there tax consequences?
- How does leveraging in an IRA compare to investing and leveraging outside an IRA?
- What are the differences in tax consequences between tax deferred leveraging through an IRA and similar investing with taxable funds?

UBTI



- What is UBTI?
- What is UDFI? (Unrelated Debt-Financed Income)
- What are the impacts on an IRA from a tax perspective of UBTI and UDFI?
- What constitutes an “Unrelated Business”?
- Is it a good idea to use leverage in an IRA?

Example: Unlevel Playing Field



	<u>Regular Taxable Business</u>	<u>Tax - Exempt Entity</u>	<u>Individual Retirement Account</u>
Working Capital	100,000	100,000	100,000
Generates Net Business Income	20,000	20,000	20,000
Pays Tax @ 35% (federal only)	<u>(7,000)</u>	<u>0</u>	<u>0</u>
Net Working Capital at year-end	<u>113,000</u>	<u>120,000</u>	<u>120,000</u>

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Working Capital	100,000	100,000	100,000
Generates Net Business Income	20,000	20,000	20,000
Pays Income Tax @ 35% (federal only)	(7,000)	0	0
UBIT at 35% (federal only)	<u>0</u>	<u>(7,000)</u>	<u>(7,000)</u>
Net Working Capital at year-end	<u>113,000</u>	<u>113,000</u>	<u>113,000</u>

What are the types of UB^T



- A tax on net income generated by a business activity that is unrelated to the tax-exempt purpose of the entity
- For retirement plans, any trade/business activity is taxable.

How to avoid UBTI



- What can an investor do to limit UBTI?
- What can an investor do to eliminate UBTI?

UBTI Exemptions



- Dividends and Interest
- Royalties and Annuities
- Gains or Losses from sale of property other than inventory or property held for sale in the ordinary course of business
- Rents

Inclusion of Income From Debt Financed Property



- To the extent property generating dividends, interest, gain or loss from sale, or rents is “debt financed,” a percentage of those revenues (and related expenses) will be subject to UBIT
- UDFI (Unrelated Debt-Financed Income) is treated as a form of UBTI

Tax and Filing Requirements



- What forms are used to calculate UBTI?
- What forms are used to calculate UDFI?
- What deductions are taken into consideration in calculating the tax due?
- With an IRA, who files and pays the tax?
- When is the tax due?
- What is the tax rate in the calculated tax?

Filing Requirements



- 990 T (Federal)
- CA 109 (California)
- \$1,000 of UBTI
- IRA Pays Tax vs. Beneficiary Paying Tax
 - Tax on UBTI
 - Custodial Fees

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What does Financial Planning entail in these times?

- What is “comprehensive financial planning”?
- When and how have CPAs begun to practice financial planning?
- Why are CPAs interested in financial planning?
- How is a CPA’s role different than traditional financial planners?
- Why the concepts of diversification and the modern portfolio theory support the incorporation of real estate in IRA portfolios

Why don't more professionals know about the benefits of self-directed IRAs?

- What do you do if your advisor says "I don't know about that"?
- What do you think is the best way to spread the word about the benefits of self-directed IRAs amongst professionals like CPAs?

What is wealth management?

- Who practices wealth management?
- How does a CPA or financial planner become qualified as a wealth management advisor?
- Who needs a “wealth manager”?
- How much do wealth managers cost?
- What model should I follow regarding wealth management?

Asset Management vs. Money Management

- What is the difference?
- What is asset allocation and how does it apply to IRAs?
- What are some of the short, intermediate, and long term investment issues to be considered?
- How do you control volatility?

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What are the exit strategies for IRAs?

- What do you do when you reach 70.5 to satisfy your required minimum distribution and you hold real estate in your IRA?
- An IRA as a non-probate asset
- IRA vs. wills or revocable living trust
- How does an IRA relate to an overall estate and wealth management plan?

Should you designate your will, trust or an individual beneficiary for your IRA?

- Why is it important to get it right when determining a beneficiary for your IRA?
- How should you complete your beneficiary forms from your IRA custodian?
- What is “Per Stirpes”?

Who should be the Beneficiary?

- Providing for surviving spouse
- Utilizing Estate tax credit shelter
 - Retirement assets or other assets
- Stretch IRA
 - Let it ride!

A Taxing Situation

- Double Taxation – Estate tax and Income Tax
- Which should come first?
 - Distributing IRA to reduce the tax
- Roth Conversion
- Sec. 691(c) deduction
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Upcoming Webinars:

Wednesday, February 8th
CPAs Only

“Why and How to Include Real Estate in your Clients' IRAs “

For more information and to register, go to:

http://www.penscotrust.com/events/WebAndTeleseminars_CPAs.asp

Wednesday, March 1st

**“How to Invest Your IRA into Private Placements, Businesses, Pre-IPOs
and more”**

Guest Expert, Ami Givon, Attorney

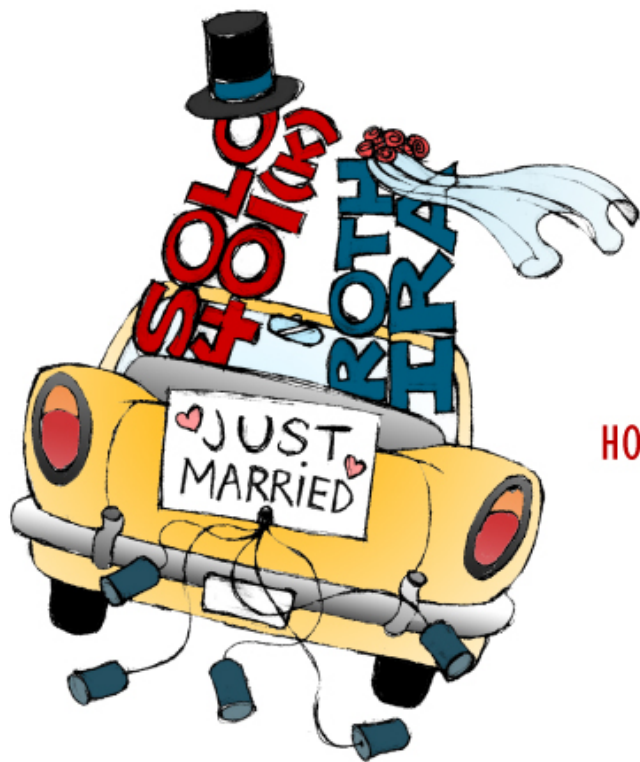
For more information and to register, go to:

<http://www.penscotrust.com/events/WebAndTeleseminars.asp>

Missed last month's webinar?

Go to this webpage to listen to the recording and download the corresponding worksheets:

<http://www.penscotrust.com/education/webandaudioconferences.asp>



The Solo 401(k) and the **NEW** Solo Roth 401(k)

HOSTED BY TOM ANDERSON, PRESIDENT & CEO, PENSCO TRUST COMPANY



If you're a professional and you're interested in adding Self-Directed IRAs as part of your business practice contact us:

Phone: 866-818-4IRA (4472)

Email professionals@pensco.com

Or go to this webpage for more information:

http://www.penscotrust.com/brokers/preferred_professionals.asp

Contact **PENSCO** Trust at:

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