



PRIVATE EQUITY INVESTMENT STRATEGIES INCLUDING HOW TO INVEST IN STARTUP BUSINESSES

WEDNESDAY, MARCH 1st, 2006

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

SPECIAL GUESTS:

Ami Givon, Attorney, GCA Law Partners

Vince McCord, Client Success Story

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.

BASIC CONCEPTS

- An IRA CAN invest directly into any form of corporate entity *except* an "S" corporation
- An IRA can loan funds to any form of corporate entity, *including* an "S" corporation
- Income leveraged investments through an entity (other than a "C" corporation) are subject to tax to the extent the income is generated by debt
- When an IRA runs an operating business it is subject to UBIT tax, unless the company is a "C" corporation

What IRA Owners Can Do...

- Combine:
 - multiple IRAs, SEP IRAs, Roths, 401-K rollovers
 - personal funds,
 - relatives' IRAs,to buy stock or a membership interest in a business entity.

Note: income and capital gains have to be prorated based on legal ownership.

What is the Swanson Case?

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Certain Prohibited Transactions

- IRA can NOT buy from or for a direct relative.
- IRA can NOT invest in a Corporate entity in which you and/or any disqualified persons own 50% or more prior to the IRA's investment
- You can NOT make personal use of a IRA asset.
- You can NOT receive a personal benefit as a result of an IRA's investment in an entity

Other rules and issues

- DOL 2000-10A
- Plan Asset Rule
- DOL Advisory 2006-01A
- IRC 4975

IRS Notice 2004-8 and the Rollins case

- Effective January 1, 2004 Roth IRA abuses challenged by IRS
- Can't provide beyond market value benefits from transactions with Roth IRAs, even if they are not prohibited transactions
- Entities owned partially or wholly by IRAS
may not have dealings with IRA' s "disqualified persons"
- The "Rollins" Case

Personal Use and/or benefit examples (prohibited)

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Then how can the IRA owner manage her IRA owned business?

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Want to start or run a business with an IRA?

- There are an estimated 25 million small businesses in the U.S.
- 83% of new businesses formed in the U.S. are funded by families and friends
- PENSCO has enabled thousands of new startups over the past 16 years
- You can buy the corner store or own a dry cleaner on your block through your IRA

Example

An IRA investment in a pizza parlor as an LLC member

- Are there any taxes paid on income?
- What about capital gains if membership is sold?
- What if debt is used by the LLC to generate income?
- What if the company was a “C” corporation?

Pizza (cont.)

- What membership structures are possible (e.g., can my brother and I invest our IRAs? Can we both use IRAs and personal funds, etc.)
- If the pizza parlor is already formed and my father owns it, can I lend the company funds from my IRA?

PENSCO Trust examples

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Remember –All things are possible- except:

- The following:
 - Collectibles;
 - Life Insurance Contracts;
 - Stock in a Sub-Chapter “S” Corp.
- EVERYTHING else, including private businesses, is possible!

A PENSCO Trust Client Success Story- Mr. Vince McCord

- When and How you got started:

- Types of Investments:

- Success/failures:

Mr. Vince McCord

- Suggestions for other investors:

Summary

- Yes, you can invest in new and existing private businesses
- No, you cannot receive personal benefits as a by-product of your IRA's investment, in most cases
- Yes, you should consult with a qualified attorney when entering into a complex transaction
- Yes, you should work with a knowledgeable IRA custodian

Upcoming Webinar:

Wednesday, April 5th

THE SERIES LLC

A Cost-and-Time-Saving Asset Protection Tool for the Serious Investor

Guest Expert:

Jeffrey H. Lerman, Esq., Managing Partner, Lerman & Lerman

For more information and to register, go to:

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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:

Business Development Center:

866-818-4IRA(4472)

takecontrol@pensco.com

For more information:

www.PENSCOTrust.com

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