

Individual Retirement Accounts (IRA): A general, educational discussion of IRA's – not to be taken as tax or legal advice for a particular person or situation.

Purpose of the Discussion: Some people who wish to invest in the local food economy may want/need to do so using retirement accounts

What is an IRA?

An IRA is a savings plan, created in the IRS tax code as a tax-deferred account for retirement savings. It is one of several 'Qualified' retirement plans. See IRS Pub 590.

Anyone with earned income or married to someone with earned income can contribute to an IRA. You cannot defer more than you earn, and there is a deferral limit of \$5,500 per person in 2014, with an additional \$1,000 allowed for anyone age 50 and older.

A rollover IRA is created when an individual rolls their company-sponsored 401k or 403b plan into an IRA, usually after they have left the company. IRA's may be combined.

The law states that IRA funds and investments are to be held in a custodial account where there is adherence to IRS guidelines. Typically, an IRA is held at a bank, brokerage, or mutual fund company that offers the account owner (you) an array of investments in publicly-traded securities: stocks, bonds, mutual funds, etc.

What is a self-directed IRA?

Some financial institutions, often bank trust departments, are willing to custody self-directed IRA's for their customers. In such a self-directed IRA, you may make investments that you source directly, such as loans to individuals or businesses, or investments in real estate. The financial custodian will generally oversee, document and review the investments to some extent and normally charges fees to do so.

What is a checkbook self-directed IRA?

In this form, the custodian institution holds the IRA. The funds in the IRA (some or all) purchase shares in a one-owner LLC that you create for making investments. The IRA is the owner and you are the manager. The LLC has a bank account to hold the investment money. As the Manager, you may use the checkbook associated with this account to make individual loans, purchase real estate, etc. Advantages may include a reduction in paperwork, less time to complete an investment, and fewer fees; however, it must be carefully structured to avoid prohibited transactions such as self-dealing.

Are there restrictions?

YES. The IRS forbids some specific investments, such as collectibles and life insurance. It also rules out self-dealing, which would include paying yourself management or maintenance fees for real estate investments. You, your spouse, and your lineal relatives (parents, children, their spouses) may not be involved in an investment.

What is recommended if I have further interest?

Begin with research. There are books and online resources about self-directed IRA's. Read IRS Publication 590. Talk with financial institutions that handle self-directed IRA's and/or checkbook IRA's. Speak with an attorney and/or CPA. Talk to one or more persons who have explored or own/ed self-directed IRA's.