



---

INVESTING GUIDE

# PRIVATE EQUITY INVESTING WITH A SELF-DIRECTED IRA

Diversifying your retirement portfolio, made easy.



Self-directed IRAs offer access to a wide range of investment options including private equity. Whether it's a commercial real estate investment, seed capital for a start-up, a capital raise for an existing business, an investment syndication, a hedge fund, an investment partnership or something else, a self-directed IRA lets you invest on a tax-advantaged basis, keeping investment gains and income tax-deferred (or even tax-exempt).

More options mean more opportunity to diversify your portfolio outside of Wall Street—something you won't typically find with most banks and brokerage firms.

## **BENEFITS OF PRIVATE EQUITY INVESTING**

Investing in private equity certainly isn't for everyone, but for sophisticated investors with knowledge or experience in a particular field or the knack for spotting companies on the rise, private equity may make a great addition to your retirement portfolio. The advantages include:

- Put your knowledge and experience to use in a way that can enhance investment returns and grow your retirement portfolio
- The choice to tap your retirement funds when an investment opportunity arises in private companies and entities
- The ability to buy, sell and exchange equity in a tax advantaged account means investment growth that is tax-deferred (or tax-free)
- The flexibility to diversify your retirement portfolio

## **TYPES OF INVESTMENT OPTIONS**

STRATA has extensive experience working with fund sponsors, investment professionals and individual investors across a wide range of private investment opportunities. We understand the administrative processes, prohibited transactions and the compliance nuances involved, which allows us to guide you through the abundant private opportunities on the market while safeguarding you from tax implications. Examples of private equity investments include, but is not limited to:

- Private start-up company stock
- De novo bank stock or bank capital raise
- Expansion of an existing corporation
- Acquisition of an entity
- Purchase of a commercial real estate property
- Building of a multifamily residential complex
- Oil & gas or energy ventures
- Hedge funds

# TYPES OF ACCOUNTS ELIGIBLE FOR PRIVATE EQUITY

- Traditional IRA
- ROTH IRA
- SEP IRA
- SIMPLE IRA

# WAYS TO INVEST

STRATA simplifies investing in private equity through a self-directed IRA with 3 easy options:

1. Private company stock of closely held corporations
2. Private Limited Partnerships (LPs)
3. Private multi-member Limited Liability Companies (LLCs)

# WHY USE STRATA

With over 9,000 investments held and more than 350 years of collective experience with private equity and other alternative assets, you can rest assured that STRATA has the know-how to handle your custody needs. We'll take care of the details, giving you peace of mind. In addition, STRATA is always available, by phone or email to answer your questions or support your needs.

# HOW IT WORKS

See how easy it is to get started:



### STEP 1

Open your IRA (online or with our paper application)



### STEP 2

Fund your account (by transfer, rollover or contribution)



### STEP 3

Direct your investments

There are specific documents needed with investing in any alternative investment through a STRATA account. Investment direction and other necessary forms are easily accessible on our website, [StrataTrust.com](http://StrataTrust.com)—and our knowledgeable, experienced associates can help you each step of the way.





# A VISION FOR YOUR FUTURE

For more than a decade, STRATA Trust Company has helped thousands of investors and investment professionals hold self-directed retirement accounts in a wide range of alternative investments. We've built our reputation by delivering streamlined and straightforward custody, serviced by a team that is always available to help and well-versed in regulatory requirements.

## STRATA—THE CLEAR DIFFERENCE



### STABILITY

Over 350 years of collective experience, 50+ employees, and more than a decade with direct oversight by the Texas Department of Banking.



### SPEED

Streamlined processes and digital documentation and signing to facilitate speedy transactions and transfer of assets.



### COMMUNICATION

Prompt and accurate communication on transaction status, statement updates and investment requests.



### TECHNOLOGY

Secure and easy-to-use technology for straightforward account management, documents, tax statements and notifications.

It's critical to have a custodian with in-depth knowledge in private equity investments to guide you through the rules and regulations to avoid potential pitfalls.

## WHAT YOU SHOULD KNOW ABOUT PRIVATE EQUITY

While a self-directed IRA gives you more investment options and flexibility than other retirement accounts, there are some rules and regulations you should know before you invest. Before directing an investment into private equity, you'll want to discuss these considerations with your tax or legal advisor:

### DO YOUR DUE DILIGENCE

Choosing your investment and conducting all due diligence is the responsibility of the IRA owner. It's important to consult with your legal or tax advisors prior to directing a private equity investment within your IRA. As custodian, STRATA's role is to ensure the asset is an asset type that we can properly administer. STRATA does not provide investment, tax or legal advice. In addition, neither STRATA nor the IRS recommends or endorses any investment.

### BE AWARE OF NON-PERMITTED INVESTMENTS

The IRS rules regarding IRA investments are exclusive, meaning that they only outline what you cannot invest in. Basically, Section 408 of the Internal Revenue Code does not permit IRAs to invest in life insurance or certain collectibles (artworks, rugs, antiques, gems, stamps, etc.). In addition, the federal tax code does not allow S-corporations to accept IRA money from shareholders desiring to purchase company stock.

### STEER CLEAR OF PROHIBITED TRANSACTIONS

A Prohibited Transaction is any improper use of your IRA by a disqualified person. In short, disqualified persons include:

- You as the account owner
- A beneficiary of the IRA
- Certain family members (lineal ascendants, descendants) and their spouses
- Any entity in which you are a majority owner of 50% or more of the voting stock, directly or indirectly

- Any entity in which you are an officer, director, or 10% or more partner or shareholder

The most common Prohibited Transactions include:

- Sale, exchange or leasing of property between an IRA and a disqualified person
- Lending money or engaging in some other extension of credit between the IRA and a disqualified person
- Using your IRA as collateral for a loan or other obligation
- Furnishing goods, services or facilities between an IRA and a disqualified person
- Transfer of IRA income or assets to, or use by or for the benefit of, a disqualified person

Prohibited Transactions, sometimes referred to as “self-dealing”, carry significant tax implications, including loss of the IRA’s tax status. Substantial penalties and taxes on the entire value of the IRA are imposed. With such serious consequences, it’s important to be familiar with the rules on Prohibited Transactions set forth in IRS Publication 590-A and IRC 4975, and address any potential issues with your tax or legal advisor.

### **TRIGGERING UBTI TAX**

Another thing to consider before making a private equity investment with your IRA is what the tax code refers to as unrelated business taxable income (UBTI). Certain investments in an IRA may have the potential to produce UBTI, and for private equity investments set up as LPs or LLCs, the most common triggers occur when the partnership:

- Purchases an operating business, one that sells goods or services
- Receives certain types of rental income
- Receives certain passive income from a business entity it controls
- Borrows funds to finance the acquisition of property

If the entity is held in a pass-thru entity such as an LP or LLC, which does not pay corporate taxes, the income generated by the business may result in UBTI for an IRA investor. UBTI should be reported

by the partnership on the annual K-1 statement. For an IRA investor, UBTI that exceeds \$1,000 for any taxable year may result in the need for your IRA to file IRS Form 990-T and pay the appropriate tax due from your IRA. Discuss the potential for any UBTI with your tax or legal professional to determine if the investment may subject your IRA to UBTI tax so that you can plan accordingly.

The IRS rules and regulations may seem complex. We’re here to help you navigate through any questions that arise so you can take advantage of new and emerging investment opportunities with confidence.



**STRATA**  
TRUST COMPANY

*Carve your own path to retirement™*

**WACO OFFICE**

7901 Woodway Drive  
Waco, TX 76712

**AUSTIN OFFICE**

901 S. Mopac Expressway  
Barton Oaks Plaza II, Suite 100  
Austin, TX 78746

Telephone: 866-511.2129

Fax: 512-637-5739

[StrataTrust.com](http://StrataTrust.com)

STRATA Trust Company ("STRATA") performs the duties of a directed (passive) custodian, and as such does not provide due diligence to third parties regarding prospective investments, platforms, sponsors, dealers or service providers. As a custodian, STRATA does not sponsor, endorse or sell any investment and is not affiliated with any investment sponsor, issuer or dealer. STRATA does not provide investment, legal or tax advice. Individuals should consult with their investment, legal or tax professionals for such services.

Investment Products: Not FDIC-Insured • No Bank Guarantee • May Lose Value  
© STRATA Trust Company. All rights reserved.

INVGD-PE\_201\_09-2021\_ADISA