

Retirement Account Capitalization of your Business Using IRA or Roth IRA Capital

Traditional IRA/Roth IRA Investments	Non-Traditional IRA/Roth IRA Investments
Publicly Traded Stocks, Bonds Mutual Funds Other Publicly Traded Securities	Privately Traded Stocks (C-Corp Only) Limited Liability Company (LLC) ownership Commercial Paper: -Mortgages -Commercial Lending - Private Bonds Real Estate

The Purpose of an IRA/Roth IRA is to make investments that will build tax deferred or tax free wealth for retirement.

- First and foremost, capitalization of a business within an IRA/Roth IRA must meet those criteria.
- Second, you should have intimate knowledge of any business you choose to capitalize within an IRA/Roth IRA.
- Third, that business should outperform (*Risk/Return*) publicly traded securities.
- Finally, any IRA/Roth IRA held business should be liquid, and managed as part of your total retirement investment portfolio.

The Do's and Don'ts of IRA/Roth IRA Business Capitalization (Most often as an LLC)

Do's	Don'ts
Build your Business Model Pay Special Attention to Cash Flow After Tax Select a Reputable IRA/Roth IRA Trustee Build Your Team -An Experienced Attorney -An Experienced Tax Accountant (Form 990T) -A Bank/Commercial Lender Apply for a Tax Identification Number (TIN) as a 408(e) IRA Trust or 408A Roth IRA Trust	Co-Mingle LLC Funds with Personal Funds Derive any Personal Gain from the IRA/Roth IRA LLC Contribute Services to the LLC Personally Guarantee LLC Financing Use IRA/Roth IRA LLC assets for Personal Collateral Engage in Prohibited Transactions -Between You (or a related person) and the LLC -Between your business and the LLC -Reciprocal Transactions -Between the LLC and your other IRA/Roth IRA's

Unrelated Business Taxable Income (UBTI): See IRS Publication 598

Definition: "UBIT generally means the gross income derived from any unrelated trade or business regularly conducted by the exempt organization, less the deductions directly connected with carrying on the trade or business."

Exclusions:

- Rents:** "Rents from real property are excluded in computing unrelated business taxable income. Rents from personal property are not excluded."
- Dividends, interest, annuities and other investment income:** "All dividends, interest, annuities, payments with respect to securities loans, income from notional principal contracts, and other income from an exempt organization's ordinary and routine investments that the IRS determines are substantially similar to these types of income are excluded in computing unrelated business taxable income."

Unrelated Debt-Financed Income (UDFI): See IRS Manual 7.27.8 (Part 7 Rulings and Agreements, Chapter 27 Exempt Organizations Tax Manual, Section 8 Unrelated Debt-Financed Income)

When debt is used by a tax-deferred or tax-exempt entity, tax is applied to that portion of the gain that is debt-financed. This income is called unrelated debt-financed income (UDFI). The investment income is taxed proportionate to the debt on the entity.

Taxes on UBTI and UDFI are calculated at Trust Rates (Up to 35% at \$10,450) and reported on IRS on Form 990-T and the applicable state tax forms.