

# PRIVATE EQUITY INVESTING GUIDE

Combine IRA tax advantages  
with private equity  
investment opportunities.



New Direction  
TRUST COMPANY



# Private Equity

## Introduction

The IRS allows an IRA (Traditional or ROTH, SEP or SIMPLE), Solo 401(k), HSA, or ESA to acquire private equity (an ownership interest in a private company) as an investment while keeping the tax benefits associated with that account type. The ability of your IRA or HSA to invest in a private company gives you the opportunity to exercise your personal market knowledge and investment expertise.

Investing in a privately owned business or entity with your IRA may sound unfamiliar since most IRA providers only allow account holders to purchase publicly traded stocks, bonds, and funds as investments. However, private equity is an available asset to your retirement plan, as long as you hold your account with an IRA provider that has the capacity to service “alternative” investments. New Direction Trust Company specializes in IRA administration and recordkeeping for alternative assets like private equity.

The returns of a private equity investment can generate retirement wealth that is tax-deferred or tax-free depending on the account type. The IRA ownership of private equity is usually expressed as a percentage of ownership or shares of stock.

Investing in private equity as an asset in your self-directed IRA is one way to diversify your retirement portfolio. Unlike publicly traded securities, private equity does not have public disclosure laws associated with it. Therefore, the investor can use personal knowledge and experience when investing in private companies or private equity with a self-directed IRA. Investors can also combine their IRA funds with other sources of funding in order to participate in the purchase of a hard asset like real estate or an ongoing business.

You, the IRA holder, select a company/entity in which you'd like to invest. You agree on terms with the company and direct us to send money from your IRA to close the deal. We make sure that the paperwork substantiates that the private equity investment is owned by your IRA, and therefore deserves the tax benefits associated with the account type.

Investing in private equity can take place with many types of entities:

- Limited Partnerships
- Limited Liability Companies
- Pre-IPO Companies
- C-Corps
- Limited Liability Partnership
- Land Trusts
- Franchise Businesses
- Start Ups (banks or companies)

(An IRA can't invest in an S-Corp, nor can it be a General Partner in a GP.)

Benefits of Private Equity Investments in IRA:

- A private equity investment is an asset that allows you to put your knowledge to work for your IRA.
- Investing in private companies and investing in private equity allows true diversification of your retirement account.
- You control the companies/entities in which the IRA invests.
- You can apply your knowledge and expertise pertaining to the private equity market.
- You can buy, sell, and exchange equity without tax consequence.

# Private Equity

## Account Types Eligible for Private Equity Investment

- Traditional IRA
- Roth IRA
- SEP IRA
- SIMPLE IRA
- Solo 401(k)
- HSA

## Investment Sequence

The time it takes to move funds from other institutions will vary according to that institution's responsiveness.



## Titling Instructions/Buyer Information

All investment documents must be titled in the name of the IRA, not your name personally.

As the custodian for your IRA account, NDTCO is the authorized signer for your account. NDTCO does not need your approval before we can sign on behalf of your IRA, so you will sign in the margins of the signer page with the words "Read and Approved."

For example, if John A. Smith has a Traditional IRA with the account number 123456, the buyer information would be:

**NDTCO as custodian FBO *John A. Smith Trad IRA*** (or NDTCO as custodian FBO Account Number 123456)  
**1070 W. Century Drive**  
**Louisville, CO 80027**

**Tax ID number: 20-0157510** (Unless you have established a unique tax number for your IRA)

## Cash Flow

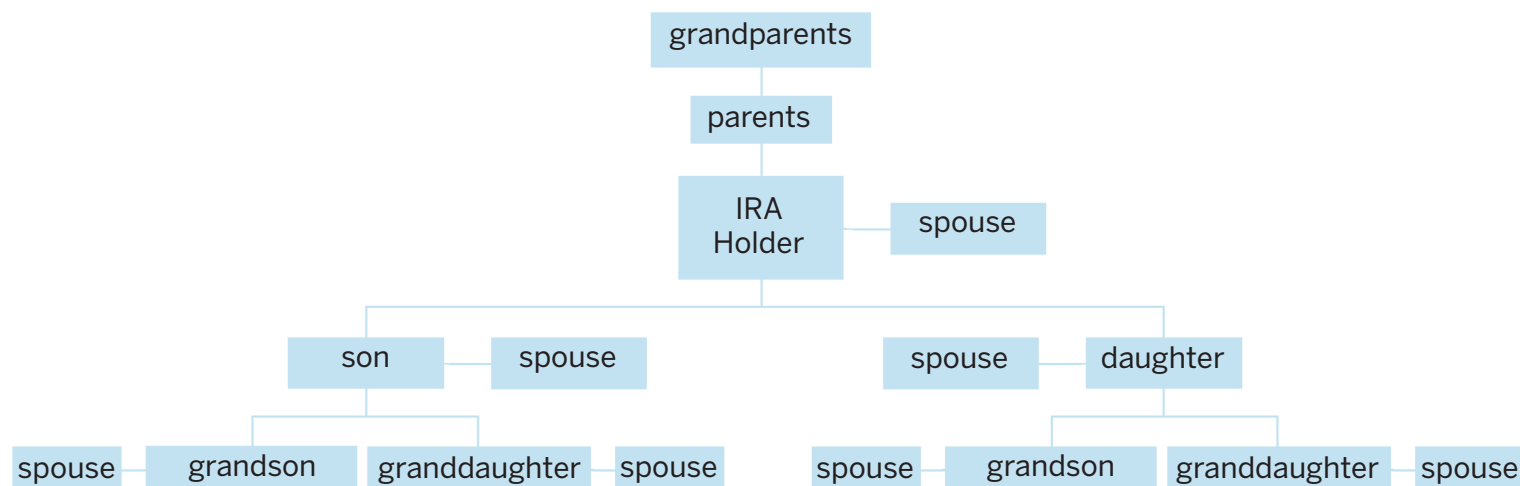
All earnings from private equity investments flow directly back to the IRA. At that time, the account holder decides how to reinvest that money. Plan ahead and make sure the IRA has sufficient funds to cover related expenses. If you expect future installments or capital calls, plan to fund your IRA accordingly.

In the event you would like to transfer or distribute all or part of your IRA investment in the future, make sure the entity in which you would like to invest will allow the ownership to be assigned or reassigned. Keep in mind that some investments do not allow the investor to sell ownership units or withdraw funds during a fixed period. (If you happen to be 72 or over and have a traditional IRA, this may affect your ability to take your mandatory distributions from the account.)

# Private Equity

## IRC Section 4975 Considerations

### Disqualified Persons Include:



All IRAs have a list of people who are disqualified from certain interactions with that account. Above is a graphic that delineates which family members are disqualified. Keep in mind that any entity that is owned or controlled by a Disqualified Person is also disqualified.

- Your IRA cannot purchase a private equity investment from you or any Disqualified Person, nor can your IRA sell an investment to a disqualified person.
- Neither you nor a Disqualified Person can guarantee a loan for an IRA owned company.
- Disqualified Persons are not allowed to be paid by the IRA.
- If the IRA owned company has acquired real estate, neither the IRA holder nor any other Disqualified Person to that IRA may live in or use the property. Disqualified Persons cannot work on the property, for free or for pay. “Sweat equity” is not allowed. Any remodeling, repair, improvement, and even maintenance must be performed by a non-disqualified person or entity.

## Due Diligence

Because neither the IRS nor NDTCO researches nor endorses any investments, the IRA holder is responsible for performing due diligence on all investments. Visit our website for more information on due diligence and ways to protect yourself from investment scams. A competent professional in the legal, financial advice, or accounting fields can also be engaged if you need additional help. Any of these legal professionals can assist in deciding if the investment being considered is legitimate, meets your risk tolerance parameters, and is right for your investment goals.

## Capital Calls & Additional Funding

A capital call, installment, or additional funding is very similar to the initial purchase process. Should your Private Equity IRA investment require a capital call or additional funding, New Direction Trust Company can assist with the process. Please note that additional funding depends on whether or not the operating agreement of the company allows for it. Please contact our offices with any questions regarding this matter.

# Private Equity

## Fair Market Valuation

The IRS requires an annual fair market value for each asset. Each year you will request a market value (or a statement as to the value of your asset if sold on the open market today) and supporting documentation from the entity's manager. It is important for the integrity of your account that your assets have an up to date valuation.

## Unrelated Business Income tax (UBIT)

Earnings from certain investments may be subject to Unrelated Business Income Tax or UBIT. The IRA pays this tax, not you personally. Consult with your tax professional to determine if UBIT is owed. If so, you would file a form 990-T with the IRS for your IRA. If your tax professional is unfamiliar with filing form 990-T, a sister company of New Direction IRA, IRA Tax Services, is available to help at 303-604-6466.