INVESTOR'S GUIDE TO ROTH IRAs

Combine Roth IRA tax benefits with alternative investment opportunities.

New Direction
TRUST COMPANY

Roth IRA

Introduction

Roth IRAs were established in 1997 as part of the Tax Payer Relief Act. A Roth IRA is an individual retirement account with a twist on the tax advantages provided by a Traditional IRA.

Tax Status

A Roth IRA is a “post-tax” account. Contributions are made by the individual once they have paid tax on those funds. Contributions into a Roth IRA are taxed as regular income in the year the contribution is made.

Earnings generated by investments are tax-deferred and grow the account without losing any gains to taxation. Once the account holder turns 59.5, they can take distributions of any portion of the account without penalty and tax-free, provided that the account has been open for at least five years.

Why Open a Roth IRA?

Roth IRAs can be a good option for investors who believe they may be in a higher tax bracket once they reach distribution age for their account. This may occur because the individual is making more money than when they made contributions, or because income tax rates have been raised by the government.

Roth IRAs do not have RMDs (Required Minimum Distributions), so some account holders use their Roth as a generational wealth strategy.

Also, if the investment has a chance to generate large earnings, a Roth may allow the least gross taxation on the investment.

“self-Directed” Roth IRA

The term “self-directed” IRA (Roth or Traditional) is simply a marketing term used by retirement custodians. “Self-directed” does not designate a type of retirement plan. A Roth IRA is an IRS account type with specific contribution and distribution rules, as well as a specified tax status described above. The term “self-directed” IRA usually means an IRA that can invest in alternative or hard assets, not just publicly traded securities like stocks, bonds, and funds.

Why New Direction Trust Company?

New Direction Trust Company has been an industry leader in providing self-directed IRAs and other tax advantaged plans since 2003. New Direction Trust Company is a pioneer in investment technology and client services. Our focus is solely on self-directed plans. We allow clients to use tax-advantaged accounts, like a Roth IRA, to hold a wide range of assets including tangible and private investments.

Roth IRA

Getting Started

Complete Account Application

Fund Account (transfer, rollover, or contribution)

Make an Investment

Investment Options

All Roth IRAs are allowed to hold many types of investments:

- **Real Estate:** commercial, residential, land, mineral rights, agriculture, etc.
- **Private Loans:** business loans, construction loans, mortgages, convertible notes, promissory notes, etc.
- **Private Equity:** startups, local businesses, private funds/developments, LLCs, C-Corps, LPs, etc.
- **Precious Metals:** gold, silver, platinum and palladium bullion and coins allowed by the IRS
- **Public Securities:** stocks, bonds, mutual funds, ETFs, etc.

New Direction Trust Company permits clients to invest in these assets, while most companies restrict their clients to publicly traded securities only.

Terminology

Rollover: Moving funds into your IRA from a different type of tax-advantaged plan, like a 401(k) or a 403(b). You are not limited to how much money can be rolled over, although there may be a restriction from your plan administrator if you are currently employed with the company providing the plan.

Distribution: Money that is withdrawn from your IRA into your personal bank account. Tax-free and penalty free distributions generally occur when an account holder has had the Roth IRA open for five years or more, and is more than 59.5 years old.

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Contribution: Money contributed to your IRA from your personal funds. The amount that can be contributed to a Roth IRA is set by the IRS each year, and varies by the account holder's age. Account holders 50 years or older are allowed to contribute more through a catch-up contribution. The catch-up contribution limit is spread across all Traditional and Roth IRAs that an investor may own. Additionally, if an investor has a retirement plan through an employer, they may still open and contribute to a Roth IRA. An investor may be prevented from contributing the maximum amount, or from contributing at all, if they earn over a certain income. The IRS provides a chart that shows the allowable contribution limits based on your modified AGI each year.

If a Roth IRA account holder is at least 59.5 years of age and has had the Roth IRA for at least five years since the first contribution, they may distribute any or all funds and assets out of the Roth IRA without tax and without penalty. Contributions to a Roth IRA can be withdrawn, tax and penalty free, at any time, regardless of age. However, any earnings that are withdrawn by an account holder under age 59.5 are considered an early distribution and are taxed a 10% penalty. A distribution from a Roth IRA can be in cash, or in-kind. An in-kind distribution occurs when the account holder takes distribution of the asset rather than the IRA liquidating the asset and receiving the cash proceeds as a distribution.

Transfer: Moving funds from one Roth IRA to another Roth IRA. You are not limited to how much money can be transferred, or the amount of transfers you can make.

Traditional to Roth Conversion: Moving funds that have a "pre-tax" status like from a 401(k) or Traditional IRA, into a Roth IRA. Since no tax has been paid on any pre-tax funds, the entire amount that is converted into a Roth will be taxed at the same rate as your personal income in the tax year the conversion is performed. However, at the time of this writing, there is no limit on the amount you can convert.

Beneficiaries

It can be useful to name beneficiaries to your Roth IRA plan. When the account holder expires, all assets within the plan will be transferred into one or more Inherited Roth IRA plans in the name of the beneficiaries. Inherited IRAs avoid probate, and provide cash and assets into a tax-advantaged plan for friends and family that can be used for their retirement investing.