INVESTOR'S GUIDE TO TRADITIONAL IRAs

Combine Traditional IRA tax benefits with alternative investment opportunities.

New Direction
TRUST COMPANY

Traditional IRA

Introduction

A Traditional IRA (Individual Retirement Arrangement) is the original and most popular tax advantaged retirement account. A Traditional IRA can be opened and contributions can be made by any person earning "taxable compensation" through employment or self-employment.

A Traditional IRA is a "pre-tax" account. Contributions are made pre-tax, earnings grow tax deferred, and distributions are taxed at the account holder's ordinary income rate. The tax-deferred status of the Traditional IRA makes for a powerful investing tool. Profits from the IRA investments go back to the IRA, growing the account without losing any of the gains to taxation. The funds in a Traditional IRA grow tax-deferred until the account holder makes a distribution. At age 59.5, the account holder may take distributions without penalty. The distributions are taxed at the account holder's ordinary income rate in the year of the distribution.

Why Open a Traditional IRA?

- Earnings within a Traditional IRA grow tax-deferred, which allows investment returns to compound faster than outside an IRA.
- Traditional IRAs are beneficial for an investor who wishes to lessen their personal tax liability in a tax year because contributions are tax deductible.
- A Traditional IRA can be a powerful tax benefit if the investor is in a lower tax bracket after reaching the age of 59.5 than the year in which they make their contribution.

"Self-Directed" Traditional IRA

The term "self-directed" IRA is a marketing term used by retirement providers; it is not a specific type of retirement plan. A Traditional IRA is an IRS account with specific contribution and distribution rules in addition to the specified tax status described above.

A self-directed IRA typically refers to an IRA that can invest in alternative or hard assets, not just publicly traded securities like stock, bonds, and funds. The IRS does not dictate to IRA providers which investments they must service. The provider chooses the assets with which they want to work.

Why New Direction Trust Company?

Some companies restrict investment types inside an IRA account to only public investments. New Direction Trust Company offers self-directed Traditional IRAs, which allow the purchase of investments outside the traditional stocks, bonds, and mutual funds.

- Experienced self-directed IRA leader since 2003
- Best account holder services in the industry
- Innovative account technology to make IRA investing easier

Getting Started

- Open a self-directed account with NDTCO.
- Initiate a transfer and/or rollover. You may also make annual contributions to your account.
- Decide which asset to purchase. You find the asset, negotiate the terms, and you instruct NDTCO to use your account's funds to complete the transaction.

Traditional IRA

Complete Account Application

Fund Account (transfer, rollover, or contribution)

Make an Investment

Investment Options

Traditional 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.

Beneficiaries

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

Terminology

Contribution: Money contributed to your IRA from your personal funds. The IRS limits the amount you are able to contribute each year.

The amount that can be contributed to a Traditional IRA is set by the IRS each year and varies by the account holder's age. Account holders 50 years and older are allowed to contribute more through a catch up contribution. The annual contribution limit is spread across all Traditional and Roth IRAs in an investor's portfolio. Contributions to the Traditional IRA could be taxable.

Traditional IRA

With the passing of the SECURE Act, account holder's can now contribute to their Traditional IRAs beyond 70.5 as long as they are still receiving qualified income.

Distribution: Cash or assets withdrawn from your IRA. The value of these assets is taxed at your income tax rate.

An IRA account holder can take distributions at age 59.5 without penalty and must take required minimum distributions at age 72.

A distribution from a Traditional IRA can be in cash or in-kind. An in-kind distribution occurs when the account holder takes distribution of the asset itself rather than the IRA liquidating the asset and receiving the cash proceeds as a distribution.

Once a Traditional IRA account holder reaches 72 years of age, they will be required to take a minimum distribution from their Traditional IRA annually. This distribution can be taken in cash or in kind and is based on the value of all Traditional IRAs, SEP IRAs and SIMPLE IRAs in the investor'sportfolio. The amount that must be distributed each year differs based on account values and client age. The IRS provides a Required Minimum Distribution chart (visit www.irs.gov).

Transfer: A client who has another pre-tax IRA, such as a SIMPLE IRA, SEP IRA or Traditional IRA can move funds directly from one account to the new Traditional IRA. Transfers are not reported to the IRS and aren't taxed/penalized.

Rollover: If a client has a non-IRA account that has a pre-tax structure, like a 401(k), 403(b), 401(a), 457(b), etc. they may be allowed to move funds into a Traditional IRA. Often, if the individual is still employed by the company that contributes to the other plan, they will not be allowed to perform the rollover. However, each company plan has their own rules. If a rollover is allowed, the individual will contact the administrator of the employer plan to start the rollover into the new Traditional IRA account. Rollovers are initiated by the account holder, who can either elect to receive the rollover funds (indirect rollover), or have the funds sent directly to the new administrator (direct rollover). If the account holder receives the funds, they have 60 days to deposit those funds into a new retirement account without tax consequence. Rollovers are reported, but are not taxed or penalized by the IRS if a new administrator receives the funds within 60 days.