

BEGINNER'S GUIDE TO PRIVATE EQUITY INVESTING



Can your IRA invest
in Private Equity?
At NDTCO, the answer is...

YES



PRIVATE EQUITY

At a Glance

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 account to invest in a private company gives you the opportunity to exercise your personal market knowledge and investment expertise.

Investing in private equity as an asset in your self-directed IRA is not only a great way to diversify your retirement portfolio, but 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.

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.

Any account offered by NDTCO can invest in private equity!



The Benefits

▲ DIVERSIFICATION

Investing in private equity as an asset in your self-directed IRA is one way to diversify your retirement portfolio.

▲ INDEPENDENCE

Our world-class online service allows you to complete all necessary paperwork seamlessly through our online portal.

▲ SECURITY

A private equity investment is an asset that allows you to put your knowledge to work for your IRA. You can buy, sell, and exchange equity without tax consequence.

▲ OWNERSHIP

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.

OPEN ACCOUNT



Possible Structures



Start Ups (Banks or Companies)



Pre-IPO Companies



Franchise Businesses



Land Trusts



C-Corps



Limited Partnerships



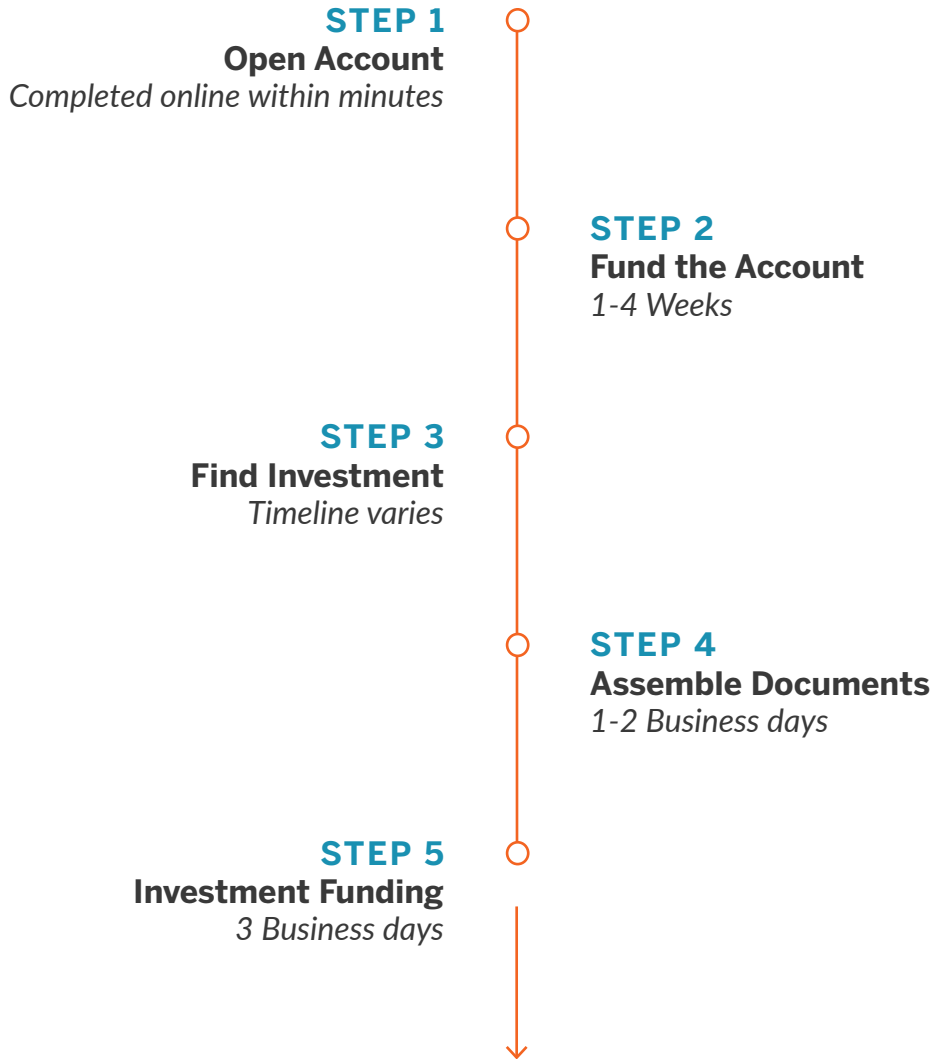
Limited Liability Partnership



Limited Liability Companies

The Investment Process

Private Equity Investment Timeline



START INVESTING



Disqualified Persons

All IRAs have a list of people who are disqualified from having certain interactions with that account (called disqualified persons). Below is a list of persons that are considered to be “disqualified” by the IRS. Keep in mind that any entity that is owned or controlled by a disqualified person or combination of disqualified persons may also be disqualified.

Additionally, you cannot receive the dividend or distribution payments personally, they must come to the account. You cannot invest retirement funds with a disqualified person or entity. Visit [this page](#) for everything you need to know about disqualified persons or prohibited transactions.

NON-DISQUALIFIED PERSONS

- ▲ Brother
- ▲ Sister
- ▲ Brother-in-law
- ▲ Sister-in-law
- ▲ Niece
- ▲ Nephew
- ▲ Aunt
- ▲ Uncle
- ▲ Cousin

DISQUALIFIED PERSONS & ENTITIES

- ▲ The account holder (you)
- ▲ The account holder’s linear ascendants (parents, grandparents, etc.)
- ▲ The account holder’s linear descendants (children, grandchildren, etc.) and their spouses
- ▲ Fiduciaries to the account (accountants, financial advisors, attorneys, etc.)
- ▲ Tax-advantaged savings accounts held by any of the aforementioned individuals
- ▲ Businesses or entities owned or controlled by any of the aforementioned individuals
- ▲ Spouse
- ▲ Children of spouse



Prohibited Transactions

A prohibited transaction is any transaction that takes place between an IRA and any disqualified person or entity. The following actions are considered prohibited transactions and could result in the distribution of this asset from your plan and may also include IRS penalties. Prohibited transactions apply to all disqualified persons to your plan.

- ▶ Engaging in a private equity transaction (buy, sell or any other type of transaction) between your account and a disqualified person
- ▶ Yield a commission/fee for the purchase, sale, or exchange of assets
- ▶ Cover account expenses with personal, non-account funds
- ▶ Use of your IRA's assets to guarantee credit for a loan
- ▶ Receive dividend, distribution or sale payments directly instead of having them go to the IRA

While we can share IRS rules with you, NDTCO does not give tax, legal or investment advice so you may be referred to your financial or legal representative for further details or a possible solution.

All expenses for the investment are the IRA's responsibility. Never pay any bills with personal funds. Such payments may be considered prohibited transactions, which could jeopardize the tax-advantaged status of your IRA. You can learn more about prohibited transactions [here](#).



The Investment Process

Due Diligence

As the IRA holder, you are responsible for performing due diligence on your IRA's investments. Neither the IRS nor NDTCO researches or endorses the investments, properties, property managers, real estate agents, or title companies, involved in your IRA's transactions. A competent professional in the legal, financial advice or accounting fields can also be engaged if you need additional help deciding if the investment being considered is legitimate, meets your risk tolerance parameters, and is right for your investment goals.

Titling Instruction/Buyer Information

If you are interested in investing in a private company, there must be documentation to show what is being offered. 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 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." We require a subscription agreement or stock purchase agreement from the issuer, titled properly to the IRA and custodian.

Private Equity Required Document Checklist

- ▲ Private Equity Buy Direction letter
- ▲ Subscription Agreement provided by investment entity or their legal team titled in the name of the IRA, signed as "Read and Approved" below signature lines
- ▲ Payment Instructions

Private Equity Required Document Checklist (fewer than 10 total investors)

- ▲ Operating Agreement for the entity
- ▲ TIN/EIN of the entity
- ▲ Certificate of good standing/articles of incorporation
- ▲ Manager's Acknowledgment Letter – completed by manager
- ▲ Upon reviewing the documentation, we may ask for additional paperwork (i.e. if there is only one member, it's probably a Closely Held LLC or Entity).

After the Purchase

Cash Flow

All earnings from private equity investments must flow directly back to your retirement account. Ensure that your investment knows to send any dividends, profits, returns of capital or sale proceeds back to your NDTCO IRA, not to your personal bank account. Receiving any of these payments personally, instead of through the IRA, may be construed as a prohibited transaction and result in the distribution of the IRA entirely along with taxes and penalties.

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, NDTCO 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.

Annual Fair Market Valuations

Per IRS regulations, each retirement account must be valued annually. Once per year, NDTCO accounts that hold private equity must complete a Fair Market Valuation (FMV).

Supporting documentation from a qualified 3rd party is required for the valuation to be processed. 3rd party documentation may include a valuation letter or annual shareholder statement from the investment company, a CPA, an attorney, or a public document.

Unrelated Debt-Financed Income (UDFI/UBIT)

Earnings from some investments may be subject to **Unrelated Business Income Tax**. If your investment's entity has earnings from the sale of goods/services or earnings from debt, consult with your tax professional to determine if UBIT is owed. You, as the IRA holder, are responsible for determining if the earnings are taxable or not. If so, you must file form 990-T with the IRS.

NDTCO does not calculate UBIT or submit form 990-T. Click [here](#) to download our free UBIT calculator.



PRIVATE EQUITY

Why NDTCO?



DIGITAL INNOVATION

We are relentless in our mission to modernize and digitize by building tools and platforms that make self direction easier, more streamlined, and more intuitive.



TIRELESS EDUCATION

Providing you with the knowledge and insight to succeed has always been our top priority. We continually host webinars, create resources, and develop educational tools that help empower and guide you.



DEDICATED CLIENT SERVICES

A real person is always available to help with all of your account management needs. If you need assistance, a knowledgeable, educated person is here to help empower you.

GET STARTED



NDTCO Client Portal

Our online **Client Portal** combines human power and digital innovation, making it simple to view all your account information in one centralized location. Within the client portal, you have the ability to directly message our support team, review recent transactions, download account documents, and review a vast library of educational content easily and securely.

Direct Messaging

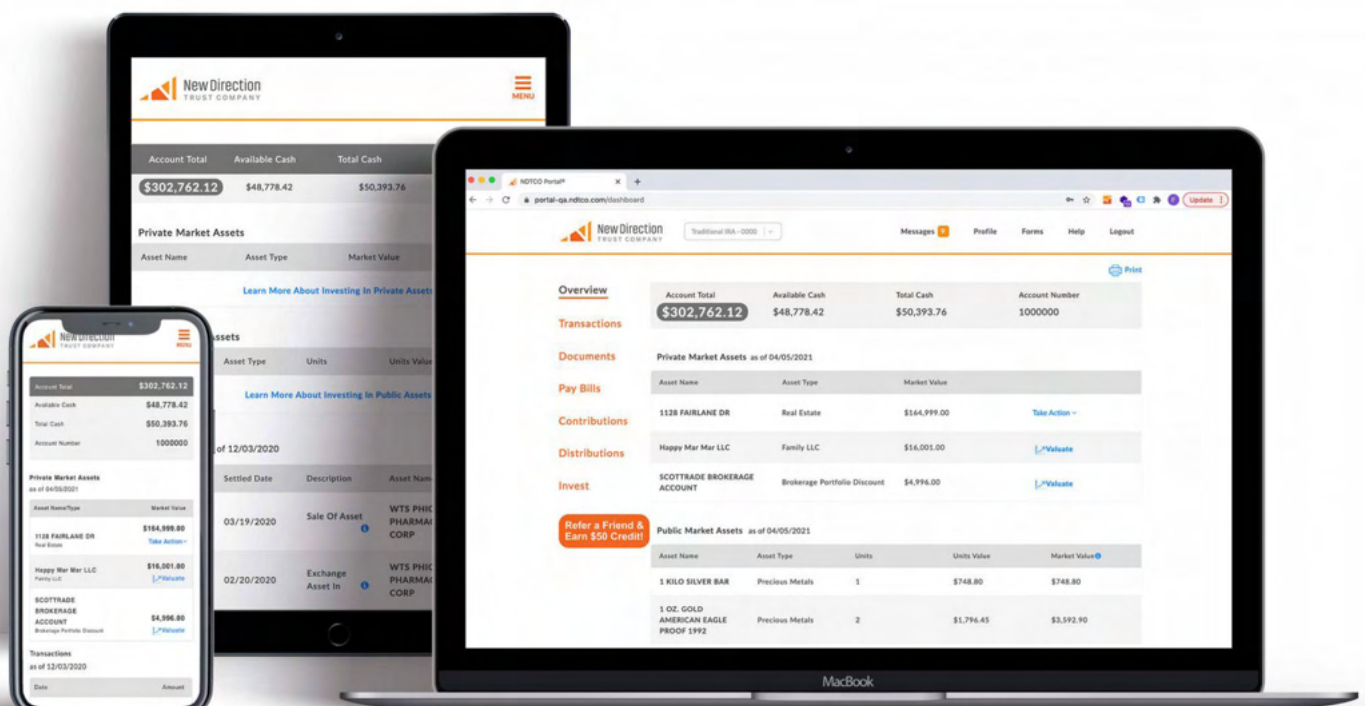
Communicate quickly and easily through the secure messaging center. Be confident in sending transaction and account-related documentation directly and safely to the NDTCO team.

Bill Payment

Quickly and easily pay vendors or bills related to any of your assets. For example, set up scheduled payments for your HOA and/or mortgage, or simply make a one-time payment via check or ACH.

24/7 Management

Easily manage your account details anytime, from anywhere. Check your account balances and transactions, update your contact information, generate statements, and designate your beneficiaries easily and securely.



The Answers (FAQ)

What fees are needed to open an account?

A one-time \$30 Application Fee is due at the time the account is established. You can view our full fee schedule [here](#).

Which accounts are eligible?

Any account offered by NDTCO can invest in private equity.

Can NDTCO help me invest?

As the IRA holder, you are responsible for performing due diligence on your IRA's investments. Neither the IRS nor NDTCO researches or endorses the investments, or investment providers, involved in your IRA's transactions. A competent professional in the legal, financial advice, or accounting fields can also be engaged if you need additional help deciding if the investment being considered is legitimate, meets your risk tolerance, and is right for your investment goals.

What about Capital Calls & Additional Funding?

Required forms for an additional funding are:

- Private Equity Buy Direction Letter – Reflecting the new amount to be funded
- Funding Instructions – Check, ACH or wire instructions from the entity
- Capital Call Letter – Entity always supplies this document OR Subscription Agreement – For additional funding, a new purchase or subscription agreement may be required by the entity. This should be signed as “Read and Approved” by you.
- If the entity is a Closely Held LLC that is managed by the client, the capital call letter can be written and signed by the client/manager.

Please note that additional funding depends on whether or not the operating agreement of the company allows for it.

What is UBIT?

Unrelated Business Income Tax (UBIT) applies to debt financed property in IRAs and also applies to operating income received from companies owned by IRAs and qualified plans. Typically, the debt financed income is taxable under UBIT rules for the percentage of property that is debt-financed.

The Answers (FAQ)

Does UBIT apply?

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.

Are there Fair Market Valuation requirements?

Per IRS regulations, each retirement account must be valued annually. Once per year, NDTCO accounts that hold private equity must complete a Fair Market Valuation (FMV).

Supporting documentation from a qualified 3rd party is required for the valuation to be processed. 3rd party documentation may include a valuation letter or annual shareholder statement from the investment company, a CPA, an attorney, or a public document.

Supporting documents not accepted: Schedule K-1s (which report annual earnings or losses but not fair market values), documents older than 6 months from creation date, recorded phone conversations, or e-mails do not constitute valid supporting documentation.

Failure to provide an annual valuation may result in the taxable distribution of your asset. Accounts that have shown no activity, including the valuation, will not be held by NDTCO because we cannot meet the IRS requirement to annually update the value of your IRA and file an accurate IRS Form 5498 for your account.

FMVs can be completed using our online [Client Portal](#).

What is a prohibited transaction?

A prohibited transaction is any transaction that takes place between an IRA and any disqualified person or entity. Prohibited transactions apply to all disqualified persons to your plan.

All expenses for the investment are the IRA's responsibility. Never pay any bills with personal funds. Such payments may be considered prohibited transactions, which could jeopardize the tax-advantaged status of your IRA.

Get Started With NDTCO



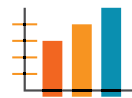
STEP 1 Open An Account

Choose the account that's right for you, and complete an online application in 15 minutes or less.



STEP 3 Choose Your Investment

Once you've landed on a strategy, establish the terms of the transaction, draw up the contract, and fund the purchase.



STEP 2 Fund Your Account

Prepare your self-directed account for launch by financing your account via contribution, transfer or rollover.



STEP 4 Manage Your Account

Manage your portfolio securely and with ease or dive into our investment tools from your Client Portal.

OPEN ACCOUNT



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