4 Frequently Asked Questions about Self-Directed IRA Distributions

By The Entrust Group, Sep 28, 2018 , in Distributions, Account Types



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There are many Self-Directed IRA questions surrounding required minimum distributions (RMDs). The deadline for RMDs, or establishing separate accounts for beneficiaries of IRA holders who passed away in 2014 is December 31st, 2015.

This article discusses four frequently asked questions about distributions. Keep in mind that these rules do not apply to Self-Directed Roth IRAs, as you will never be required to make distributions from a Roth account. The following rules apply to traditional, SEP, and SIMPLE IRAs.

1. At what age can you take a distribution of the property without IRS penalties?

You can begin taking distributions of any property at age 59 without incurring a tax penalty.

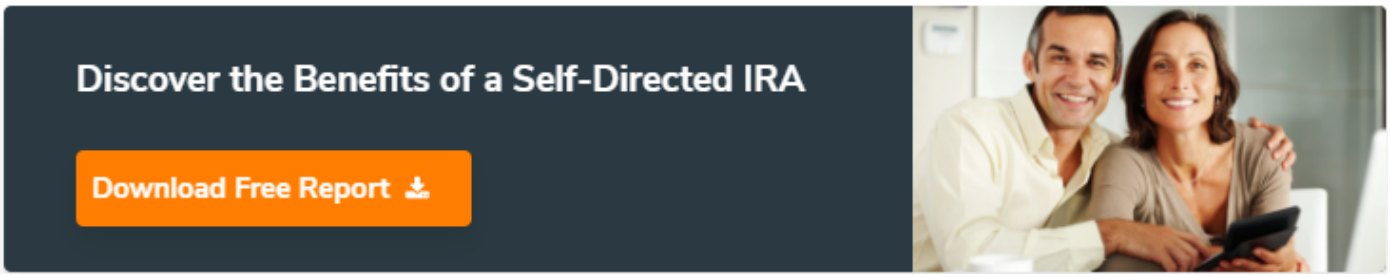
2. If you buy a property with your IRA can you live in the property when you retire? Can you buy that property from your IRA to then live in it?

You may not purchase the property from the IRA. It will be considered a prohibited transaction. To re-title the property to your name, all you need to do is distribute the property in-kind. If your IRA

purchases a property, you may live in that property only if you receive that property as a distribution.

If you take distribution after age 59, there will be no IRS penalty for a premature distribution. That distribution to you, or distribution to any third parties may be subject to income tax, depending on whether the property was purchased in a Roth or traditional IRA. If owned by your Roth IRA, there will be no tax (unless the required holding period has not been complied with). Learn more about the Roth IRA 5-year-hold rule here.

If owned by your traditional IRA or other tax deferred plan, the distribution will be at Fair Market Value, and added to your income for tax purposes in the year the distribution was made. The distribution is effected by asking, in writing, for the distribution to be made by your IRA or other self-directed plan providers. The property will be deeded to you and you will receive a 1099R which is also reported to the IRS.



3. How do I receive a Required Minimum Distribution from my IRA that is invested only in real estate? If your age requires you to take an annual RMD and you don't have enough cash in the account to meet the required distribution, can you distribute a fractional interest in the property?

You may receive the Required Minimum Distribution (RMD) in undivided interests in the property over the calculated term of your RMD based on the Fair Market Value of the property, determined every year. You will receive a 1099R each year for the appropriate amount.

As the property is distributed, you should stay cautious and avoid violating the prohibited transaction rules over the course of the RMDs you receive. Your IRA may also sell the property to a

non-disqualified third party, and the IRA can receive the cash, and subsequently as a distributi satisfy your RMD requirements.

Another option is to pay the 50% penalty on the amount of the RMD to satisfy regulations. This will preserve the tax-deferred status of the investment under the IRA. You have to file an IRS form 5329 for the payment of the penalty (excess accumulation penalty).

4. I own Real Estate in partnership with my SEP IRA. How are distributions made?

If you have an undivided interest in Real Estate along with other persons, in IRAs or 401(k)s, your proportionate interest in your IRA can be deeded to you by your IRA as your personal property proportionately. If the partnership is a limited or general partnership, the partnership agreement may dictate what is allowed as a distribution. Often such partnerships permit the change of ownership from IRAs or 401(k) to you personally. This can be accomplished at your direction to the IRA or 401(k) servicer/trustee/custodian. Keep in mind that any ownership interest in an IRA is deeded to you and is considered a distribution which may have tax and penalty consequences.

If you want to know more about the various legal caveats that surround taking distributions from Self-Directed IRAs, please contact us.

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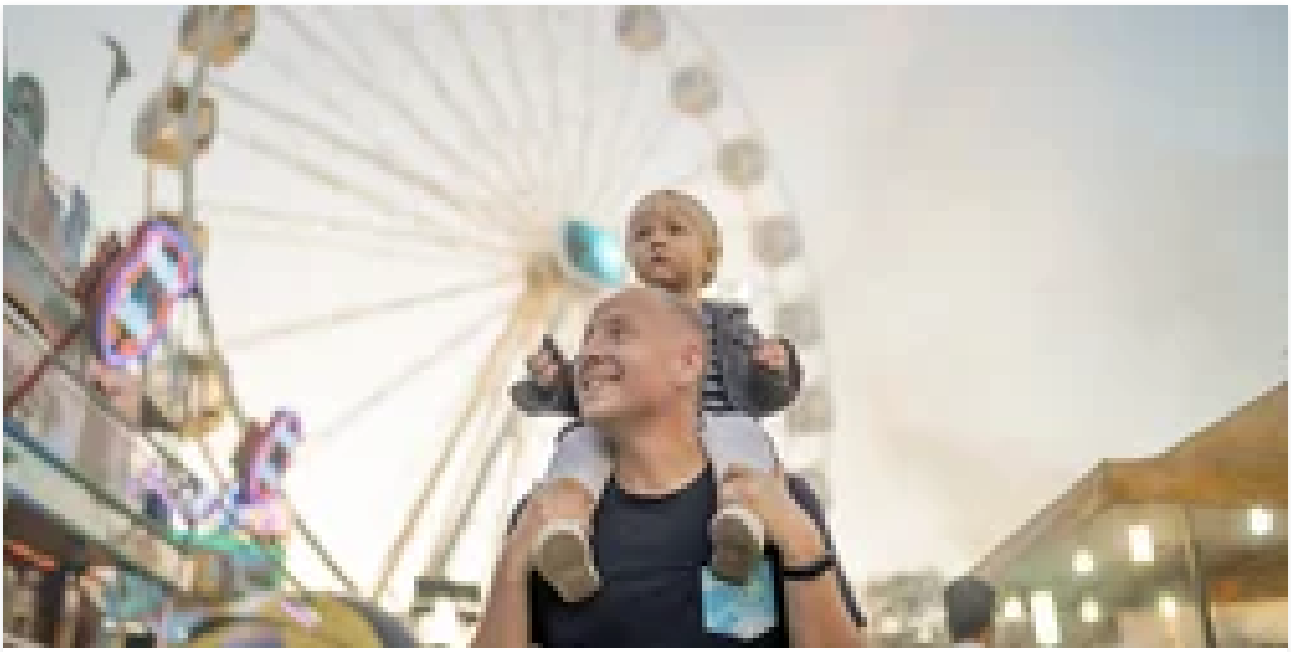
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