

## **Prohibited IRA Transactions: IRS Code 4975**

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***Certain kinds of investments are prohibited in IRAs. These are generally such items as artwork, antiques, gems, stamps and coins. Real estate is not a prohibited investment. But there's always the potential for a prohibited transaction when you invest your IRA in real estate.***

### **What Transactions are Prohibited?**

A prohibited transaction occurs when you interact with your IRA in certain ways. Here are some of the things you aren't allowed to do:

- You can't sell property to your IRA, or buy property from your IRA.
- You can't loan money to your IRA, or borrow money from your IRA.
- You can't use the account, or any part of it, as security for a loan.
- You can't receive goods or services from your IRA, or provide goods or services to your IRA.

### **What Does This Mean for Me?**

The IRA is considered terminated as of the first day of the year in which the prohibited transaction occurred. Here's what that means:

- You have to pay tax on the same amount of income as if you withdrew the entire balance of your IRA.
- If you're under 59½, you have to pay the 10% early distribution penalty on that income.
- You lose the benefit of having that money in your IRA for all the years you would have retained it for your retirement.

### **The Bottom Line**

If you want real estate in your IRA, use part of the account to buy shares in a REIT, or a mutual fund that holds REIT shares. You get diversification and professional management, and you avoid the risk of ruining your IRA with a prohibited transaction.

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