

THE SELF-DIRECTED IRA ACCOUNT GUIDE

A guide for helping you navigate and operate your
Self-Directed IRA account



NOTICE

The following information is not intended to be legal, financial, investment or tax advice. It is provided as education only, and as a guide to help you understand our operating policies and procedures.

Nothing in this guide should be considered advice on your specific case or situation. You are advised to seek the counsel of your tax, legal, or financial advisor when engaging in any transactions or investments.

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Introduction

Thank you for establishing an IRA with American Estate & Trust (“AET”), your non-fiduciary, directed custodian. The following general information will explain many of our account-related procedures and assist you in getting the most benefit from your self-directed account by making you aware of some IRS rules and restrictions.

If you have consultation questions, please contact your designated account representative (the person who helped you set up the account).

For account questions, contact our customer support staff.

Online Account

You will be provided a user name and password via e-mail once your account has been established. You can log into your account and view account details, print statements and utilize the Bill Pay feature for recurring bills, mortgage payments, vendor payments, etc. For each vendor you wish to add to Bill Pay, a one-time initial Direction of Investment form must be submitted with the bill/invoice to be processed. If this request qualifies for the Bill Pay program, it will be set up and you will see that vendor on the list under the Bill Pay tab.

Account fees can also be paid online. Account fees are not listed under the Bill Pay tab. Your account fees due will show on the main ledger screen when you log in. The right side of the screen will show a box with an amount listed. You can click the “Pay Now” link to pay the amount due and you can also pay for future fees. You can also prepay fees by clicking on the Pay Now link and entering a charge amount. This will apply a credit to your account.

You cannot make IRA contributions online. If you have an investment that is short of funds, you cannot log into your account and add additional funds to complete the investment transaction. This would be a contribution. All contributions must be sent via wire transfer or check and a Contribution Form must be completed, so please plan your investments accordingly.

Account Statements

Statements are accessible by logging into your account and clicking on the “Document” tab. Select the statement from the list to view, download and print. You will then be prompted to enter the last four digits of your Social Security Number in order to view the selected document. We normally do not send paper statements but you can request them for a fee of \$8 per quarter.

Electronic Notifications

Any time there is account activity, such as funding investments, dividend income, setup issues, transfer requests in process, etc., you will receive an e-mail notice. It is very important to pay attention to these notices. These are system-generated notices and some e-mail providers direct them to the spam/junk folder. If you are not receiving notices, please check your spam/junk folder. You may need to modify the settings on your e-mail account to permit e-mail from us.

Fee Schedule

To keep our annual fees among the very lowest in the self-directed IRA industry, extra charges may apply for certain types of transactions or services. Please take time to review your Fee Schedule as it details what is included in the annual custodial fee and what is separate.

Transfer Requests

To avoid delays in the process of transferring your account from another custodian, contact the current custodian holding your account and advise them you are wanting to transfer to another IRA custodian. You must ask them if they have any special requirements. They may have their own paperwork to complete. You may need to submit an original transfer form. Some require a medallion stamp, while others will accept a fax. Some require liquidation of your assets first.

Non-cash asset transfers may require approval for the asset to be transferred. For example, if you are wanting to transfer a property, the property must be approved and should not have a mortgage. You may not be able to transfer it unless you refinance or pay off the mortgage. Despite your being the legal owner before and after transfer (only the custodian is different), many lenders and escrow companies do not like to see a different custodian name on the title. Some believe the transfer may trigger the mortgage's due-on-sale clause. Others will charge high fees just to retitle the documents. Contact your current lender and title company to learn their special rules before attempting to roll over or transfer mortgaged property to your new IRA.

Checks received into your IRA account have a 5-10 day hold to clear before funds are available. Wired funds into your account are available immediately. We do not offer ACH payments.

Direction of Investment Or Other Transaction Documents

Document review/signatures, withdrawals, DOI requests, funding investments, etc. have a process time of 2-5 business days. If there are problems or corrections needed, you will be notified via e-mail. Once the corrections are made and the request is resubmitted, the processing time starts all over again. When planning your self-directed investments, it is very important to ensure documentation is completed properly and to allow enough time for processing.

We provide a basic review of any funding requests or other transaction documents. This review is to ensure that the transaction is administratively feasible and generally appears to be compliant (note that actual compliance with all laws is solely your responsibility). If you submit documents with mistakes, errors, missing pages, no instructions, etc., your documents will be placed on hold or rejected. In some cases, extra charges may apply due to excessive document handling.

IRA Contribution Limits and Deadline

We can give you general information but you must contact your tax advisor for your individual limits, deductibility and other tax questions. The deadline for contributions for the year is on or before your tax filing deadline for that year (payments must be postmarked no later than the tax deadline date). If a contribution check is received that does not clear due to non-sufficient funds, a NSF fee will be charged. If you later send a new check that does clear, the postmark of the subsequent mailing must be used in determining if the contribution has met the IRS deadline.

Also be aware that you cannot make IRA contributions directly to any entity owned by your IRA (or receive distributions from it). All contributions and distributions must flow through AET.

Minimum Balance

A minimum cash balance of \$325 is required to keep the account open. The minimum cash balance required will be higher if your account holds real estate that has any mortgage payments (the minimum balance will be \$325 plus two mortgage payments for each mortgaged property).

Once your account balance drops below the minimum, you will need to contribute additional funds to meet the minimum; otherwise, your account will be frozen (including the funding of investments) until your minimum balance is met. Therefore, it is very important to maintain a reasonable amount of liquidity in your IRA. For customers nearing, at or above age 70½, as well as for inherited IRAs, the minimum account liquidity may be set higher to account for the IRS's Required Minimum Distributions (discussed later).

Self-Directed Investments

You have a custodial IRA, not a trustee IRA. This means AET is a custodian, but not the owner, of your assets (*see* Tax Code § 408(h)). Your IRA is not a separate legal entity; it cannot own assets or enter into contracts. The artificial “custodial titling” of your IRA assets is done solely to give public notice that your assets are being “held by” an authorized custodian in order for you to achieve favorable tax treatment with respect to potential gains from your IRA investments. Although this Guide may reference “your IRA” as the thing that buys/sells investments or pays expenses, it is actually **you** doing these things via the custodial account holding your assets.

As the legal owner of your self-directed custodial IRA assets, you are responsible for choosing investments that are appropriate for your retirement goals, determining asset values when needed, validating the accuracy of asset values provided by others, executing IRA investment-related transaction documents, monitoring your investments' activity and operations, dealing with any problems and issues that arise from owning such assets in your IRA, etc. AET does not validate, vet, manage or monitor IRA investments or advise on their legality, riskiness or suitability. Questions about your investments should be directed to the investment provider or your advisor.

Any income earned by an IRA asset must be paid to that IRA, not you personally or another IRA. If you are expecting IRA income and do not see it coming into your IRA, you must contact the investment provider to ensure that the payments go to the IRA. Also, if there are any legal issues involving your IRA asset, such as tenant eviction, insurance claims, litigation, lost values, etc., you must work with your investment provider, property manager or advisors to resolve the issues.

It is extremely important that you stay actively involved with all of your custodial accounts. The benefits and freedom of IRA self-direction comes with a significant level of responsibility.

It is our hope that you are very successful with your IRA investments. To achieve success and avoid IRS issues, you must be careful with your investments and diligent with the operation of your custodial IRA. Because of the high level of responsibility you will have in properly operating any self-directed IRA, it is recommended that you retain competent, independent legal and/or tax advisors to assist you when needed. Such advisors will act as *your* agents, not AET's.

Prohibited Transactions

In exchange for granting tax-favored status to your IRA's investment gains, the IRS expects you to use the assets strictly for your future retirement needs. You are not permitted to receive, or give, direct or indirect benefits involving the IRA assets. Certain people and entities – which the IRS refers to as “Disqualified Persons” (DQPs) – are always considered off-limits for interacting with your IRA assets. You, your spouse, your lineal descendants (and their spouses), and your ancestors are all DQPs. Entities (businesses, trusts, etc.) that are owned by any of these people also may qualify. So might some business partners and the officers of companies you own.

The list is long and rather complex. Generally speaking, a transaction between your IRA and anyone who might cause a conflict of interest between doing what's best for them or best for your IRA (if the deal goes wrong) can be deemed a prohibited transaction. Thus, siblings and significant others, while not technically DQPs, could be off-limits, too. Check with your advisor for the full list of DQPs and for analysis of whether your intended transactions may be prohibited under the rules. Here are just a few examples of the types of transactions that are prohibited between your IRA on one side of the transaction, and you (or other DQPs) on the other side:

- Using IRA funds to purchase a property that a DQP already owns.
- Selling or renting IRA property to a DQP (even at fair market price/rent).
- Using personal funds to make a down payment or earnest money deposit, or using other means to hold or lock up an investment intended for the IRA.
- Using personal funds to pay any expenses properly associated with the acquisition, repair, maintenance, legal/tax compliance, litigation, or disposition of an IRA investment.
- A DQP offering collateral or personally guaranteeing a loan made by/to the IRA.
- Receiving a personal benefit from IRA property (such as hunting or fishing on it).
- Loaning IRA funds to a DQP or the IRA receiving a loan from a DQP.
- Receiving sales or broker commissions from your IRA's investment activity.
- Receiving compensation from an entity in which your IRA has a significant ownership.
- Providing sweat equity labor or other services to an IRA property or business; etc.

It is best to only involve your IRA assets with completely independent persons and entities. Always consult your legal or tax advisor before involving your IRA with potential DQPs.

Taxation of Investments

AET is not an advisory/consulting firm and does not provide legal, tax, investment or any other professional advice. The following information is meant as general information only. Consult with your own advisor to determine the legal and tax consequences of any investments.

Generally, an IRA provides for tax-deferred investment growth (or potentially tax-free, in the case of a Roth IRA). However, certain investments can lead to current taxation. Contributing more than is annually permitted will lead an excise tax of 6% of the amount over-contributed and not taken back out in time. Even worse, “prohibited transactions” – no matter how small the transaction dollar amount – can lead to permanent disqualification of the entire IRA, causing the account to be deemed distributed as of the first day of the year in which the transaction occurred. It could also lead to a separate tax of up to 115% (of the “amount involved”) for any other party to the prohibited transaction, which is often a family member.

Even a perfectly legal transaction may lead to current taxation. Unrelated Business Income Tax (“UBIT”) is assessed when your IRA invests in assets that produce pass-thru active income. For example, if you invest your IRA in a start-up company or MLP that generates active income, which is passed through to its owners, your IRA would owe UBIT on its booked share of the profits (whether or not such profits are actually distributed to the IRA). Likewise, if your IRA (or IRA-LLC) develops raw land, or purchases real estate with the purpose of flipping properties for short-term gains, such profits can be deemed pass-thru active income and subject to UBIT.

There are exemptions from UBIT for certain passive investments: C-corp stock dividends, passive rental income, interest on passive loan activity, royalty payments, passive capital gains, etc. Sometimes, the exemption is not available (e.g., income from hotels, tourist camps, parking lots, etc). Gains from “excessive” short-term investment activity (real estate, loans, trading, etc.) could be deemed active income subject to UBIT. Consult your tax advisor to determine how your IRA’s investment activity will be taxed and if any exemptions may be available.

Unrelated Debt-Financed Income (“UDFI”) tax is incurred when your IRA’s investment does not generate active income but the IRA did utilize debt financing to acquire the asset. If your IRA purchases real estate and borrows some of the money needed to pay for it, the percentage of recent leverage will be used to determine your UDFI liability. For example, if you direct your IRA to buy a \$500,000 property using \$300,000 of IRA funds and \$200,000 of borrowed funds, then approximately 40% of any rental income or sale profits would be subject to the UDFI tax. If your IRA holds the property and pays down the mortgage, then each year the UDFI ratio will decrease (it is based on the last 12 months of average indebtedness versus the basis in the property). UDFI applies whenever funds are borrowed to assist your IRA in purchasing any asset, not just real estate, so buying stocks “on margin” generates UDFI (but short sales do not).

Form 990-T is the IRS form you will need to complete and sign if UBIT or UDFI applies to your investments. This will also require that you obtain a separate EIN for your IRA using Form SS-4. You must then send a copy to AET so that we can pay the tax bill using funds from your IRA. You may be able to deduct certain related expenses (including depreciation) to determine your taxable income; also, active losses may be carried forward to offset future year gains that would be subject to UBIT/UDFI. Please review IRS Publication 598 and Instructions to Form 990-T.

Note that UBIT/UDFI is not necessarily a deal breaker. Some investments receive a high rate of return, despite the tax, and still outperform investments that are exempt from the tax. You and your advisors must determine how any potential taxation will affect your investment decisions.

Working Relationships with AET

AET does not promote, endorse, recommend, validate, vet or monitor any third-party investments. We have many sales and business relationships. Some independent companies or persons may choose to recommend us for, or assist in creating, your IRA. However, we have nothing to do with the investment offerings made by third parties or their internal procedures.

If your account was set up through an investment provider, independent salesperson or advisor you are working with, you will need to contact them directly for specifics on your investments, including any questions related to their particular procedures. Ensuring that your investment’s

expenses are being paid, etc., must be done by you, your advisors and/or your asset manager. AET's only involvement will be the processing of your proper account requests as you direct us.

It is important to note that since the third parties are independent of AET, you will never be obligated to utilize their services or investment offerings once you set up an IRA, even if the third party was the one that persuaded you to use AET, or assisted with the creation of your IRA. You are always free to choose completely different investments for your IRA.

Also be aware that some third parties may not fully understand, or be able to advise you about, the AET or IRS rules relevant to your IRA. They should understand their investments well but may not know how your investment will be titled, processed, taxed, etc. Furthermore, after your IRA has purchased their assets, they also may not be as involved in supporting you as you'd like. Any concerns or expectations you have about ongoing investment support should be addressed with them and put in writing before the purchase. AET does not provide advice or support for your investments so you must use your own advisors to assist you with choosing, monitoring, operating and maintaining legal compliance for your self-directed IRA investments.

If you are using a third party to advise or assist you, AET will not take account directions from the third party, or provide them with your account information, unless you first complete a Limited Power of Attorney ("LPOA") form telling us that such person or company is acting as your authorized agent (meaning you accept full responsibility for all authorized actions they take regarding your account). You may revoke any LPOA document by notifying us in writing.

Investments in Life Insurance / Life Settlements / Viaticals

Tax Code § 408(a)(3) expressly prohibits any IRA investments in "life insurance contracts." The law is unclear regarding "life settlement" and "viatical" contracts. The IRS has yet to issue a formal opinion stating that these are acceptable investments for an IRA. Until the IRS does so, AET will not permit such investments (note: an attorney opinion letter will not be satisfactory).

Investments in Collectibles

Tax Code § 408(m) expressly prohibits most IRA investments in "collectibles." This includes stamps, most coins, antiques, rugs, works of art, metal and gems, alcoholic beverages, collectible cars, jewelry, etc. Likewise, collectibles should not be held by entities that are substantially owned by one or more IRAs. Fortunately, Congress has created an exemption under § 408(m)(3) for certain coins and bullion (discussed next). However, be aware that if an "exempted" item is transformed into a "collectible" item, such as an otherwise permitted coin being used as part of jewelry, the modified item will then be deemed a prohibited collectible.

Investments in Precious Metals (Coins and Bullion)

The IRS provides an exception to the general prohibition against IRA investments in collectibles. Certain coins and bullion are acceptable. American Eagle coins, Buffalo gold coins (not proof), as well as various State and foreign coins are permitted if they meet the fineness requirements. The same is true for certain bullion bars.

AET uses a third-party storage vault facility to store precious metals held by IRAs. There will be a storage fee charged to your IRA for this service. We can provide you a separate fee schedule that applies to metals-related transactions. The IRS does not permit you to personally hold IRA bullion investments. You will receive an e-mail notification and a certificate of ownership when the metals are delivered to, and verified by, personnel at the storage vault facility.

Despite being “legal tender” in some States, you cannot use precious metal coins to make your annual IRA contributions. You are permitted to roll over or transfer existing metals investments. Likewise, if you wish, you may take an in-kind distribution of metals from your IRA. The Form 1099-R value reported to the IRS will be based on the spot market value of the coins/bullion as of the distribution date and you will be subject to any applicable distribution taxes on that value.

You will need to set up an account with a metals dealer. Depending on the dealer you use, there may be a minimum purchase requirement.

If you wish to invest in precious metals, please contact your advisor or account representative for more information and a current list of coins and bullion that you can own in your IRA.

Investments in Currencies

Investments in Iraqi Dinar are no longer permitted by AET. To invest in any other currencies, you will need to set up an account with a currencies dealer and forward a copy of your signed agreement to AET. Such agreement cannot require any personal collateral or guarantees. AET cannot and will not validate that any agreement meets IRS or other rules.

Bitcoin: In March 2014, the IRS ruled that the alternative currency called Bitcoin is to be considered “property” rather than “currency” for tax purposes. According to the IRS, Bitcoin has no legal tender status in any jurisdiction. However, any Bitcoin payments for services or in exchange for products would be taxable as income (and, thus, potentially subject to UBIT/UDFI for IRAs). AET does not permit the holding of Bitcoin in your IRA.

Investments in FOREX / Commodities / Options / Stocks / Other Brokerage Offerings

Your IRA is permitted to invest in such accounts provided that there is no possibility for any investment to incur losses greater than the cash in the account and that no personal pledges, guarantees or collateral is provided. Please note that AET’s acceptance of your brokerage agreement does not mean that AET has determined the agreement to be legally compliant; you must ensure that it is.

Moreover, you are the legal owner of the investments and AET is merely a custodian (only a trustee for federal tax purposes, such as IRS reporting requirements); therefore, the brokerage agreement should be designed specifically for non-trust “custodial” IRAs. If you are required to complete a “trust account” document, you must sign as owner in the “trustee” role. Profits from excessive, short-term trading (“trader status”) may be deemed active income subject to UBIT. Consult your tax advisor to determine how your IRA’s trading activity will be taxed.

Investments in Real Estate

All county records and title documents should be in the name of your IRA to show that an IRS-approved custodian (such as a bank or trust company) “holds” the property for IRS purposes:

“American Estate & Trust, IRA Custodian FBO [Your Name]”

However, you are the actual owner (for all non-tax purposes). Thus, when purchasing or selling an investment property, all related contracts should list **your name** (not the custodian or IRA) as the Seller or Purchaser **and** that your transaction is intended to qualify for IRA tax treatment:

“[Your Name], as account holder of custodial IRA # [xxxxxxxxx]”

AET is custodian, but not legal owner, of your IRA assets. If the other party to the transaction insists that AET sign a document, AET will only sign as your authorized agent. All terms, rights and obligations from the document must apply to you (as the IRA owner), not to AET.

When you find an investment property for your IRA, the earnest money deposit must come from IRA funds. You cannot put personal earnest funds down and then request reimbursement from your IRA. If you mistakenly start to do this, you must have the contract rescinded (torn up) and completely redone using IRA funds only. An “amendment” to an improper contract is not sufficient. The other party may not want to rescind, so make sure the contract is done properly!

Once you buy a property for your IRA, you cannot use personal funds to pay for any of its expenses (such as taxes, insurance, renovations, repairs, property manager fees, etc.). You must submit a Direction of Investment form with supporting documentation (i.e., invoice) for payment. You can make additional contributions (within annual limits) to your IRA via normal procedures and direct the new funds to pay an expense but you cannot pay the expense yourself. Likewise, please do not expect AET to automatically pay your IRA’s property expenses. We do not manage or monitor your investments, and we cannot pay any bills without your express direction.

If you plan to hire a property manager for any of your IRA real estate, please ask for a copy of our separate “Property Management Agreement Guidelines.” If you have a property without a tenant and the property manager has no rental income from which to pay bills, you must ensure that expenses are being paid from your IRA’s funds. If your investment provider promised you would have a tenant when you bought their property, but there isn’t one, you will need to discuss that issue directly with the investment provider. We cannot intercede on your behalf.

To minimize custodial transaction fees, you may wish to use an IRA-LLC to hold properties. The IRA buys a new LLC and the LLC then buys the property. The LLC has a separate bank account to receive rental income and pay property expenses. This can be especially useful when multiple parties (or IRAs) are buying a property together (so the tenant doesn’t have to write separate *pro rata* rent checks to each owner; and *pro rata* IRA expense payments are avoided). Note that an IRA-LLC typically offers no more, and no less, asset protection than for assets held directly in an IRA. For additional information or specific advice, consult an expert legal advisor.

Profits from excessive, short-term flipping (“dealer status”) may be deemed active income subject to UBIT. Consult your tax advisor to determine how your IRA’s activity will be taxed.

Investments in Companies

Generally, your IRA can invest in almost any type of business entity. The two major exceptions are: (1) an S-corporation (due to the S-corp rules); and (2) any business owned or managed by a DQP (due to the IRS prohibited transaction rules – see Internal Revenue Code § 4975).

IRA-LLC: Your IRA can invest in a brand new LLC, purchasing its member units in exchange for IRA funds. You may do this to segregate funds for different kinds of investments or for ease of asset management. For example, if an IRA buys a new LLC and uses the LLC's cash to buy a rental property, the renters would simply write a check to the LLC rather than to the IRA. The LLC maintains its own checking account to hold income from its activities and to pay expenses associated with its assets (property taxes, insurance, repairs, etc). An IRA-LLC can also reduce custodial fees, be quite useful for multiple-owner situations, and make transfers/sales easier (no retitling of LLC property, just transfer/sell the LLC's member units). The LLC's manager must report to AET a year-end valuation (and any *pro rata* values for IRA members holding less than 100% of the LLC). If active income is generated, or debt used, the K-1 or valuation should state how much of the income allocated to the IRA member is subject to UBIT or UDFI.

Please be aware that the use of such an LLC does not get around the normal IRA rules. All the prohibited transaction rules, as well as UBIT/UDFI, still apply if the LLC is an IRA plan asset. This means you (and other DQPs) cannot receive compensation for managing it, personally pay LLC expenses, provide sweat equity to the LLC properties, get full-recourse lending, etc.. Note that IRA contributions and distributions must still flow through AET, not any IRA-owned entity.

Existing Business: If you invest your IRA in a preexisting company, such as a start-up business you think will someday be very profitable, make sure no prohibited transaction rules are violated (in other words, your child cannot be the owner or manager, etc.). Also be aware of the potential tax consequences (UBIT/UDFI) of the investment. If the business is a C-corporation (or an LLC taxed as one), dividends paid to your IRA as a stockholder should be exempted from UBIT.

However, if the entity is a pass-through entity (most partnerships, LLCs, MLPs, etc), then the business should issue a K-1 statement to your IRA. The K-1 should also indicate if the income is active, or derived from debt financing (subject to UBIT or UDFI for tax-exempt owners like your IRA). Though required, some issued K-1's fail to provide the information (Code "V" in Box 20) so have your own advisor validate the K-1 to see if you need to complete a Form 990-T. Also, if the company sends the K-1 directly to you, then you'll need to forward a copy to AET.

Operating Agreements: If 25% or more of an entity is owned by one or more retirement plans (including IRAs), then the "plan asset" look-through rules are invoked, meaning the entity assets will be deemed plan assets and the managers of the entity will become fiduciaries of the plan(s). If this might occur, the entity's operating agreement should have special language preventing the possibility of a prohibited transaction. Many LLC providers, if they give an operating agreement at all, will provide one with generic LLC provisions, leading to a significant risk that any IRA investing in it may later become disqualified. AET might not accept unsatisfactory language. Please verify with your advisor that for any companies your IRA will be a substantial owner of (especially new IRA-LLCs), the operating agreement has the appropriate custom language.

Annual Asset Valuations

AET is required by IRS rules to “report” the value of your IRA account each year on Form 5498. However, AET is not required to determine the values of your individual assets. You or your asset managers must obtain annual valuations of all assets and send them to us. AET is also not required to validate the accuracy of any values provided by you or third parties.

For annual valuation purposes, the fair market valuations can be less formal. We can use the K-1 values from your IRA’s pass-thru entities. For investments in precious metals, we can use the spot prices. For other investments that trade on established markets, we can use the published market values from third-party statements. You must determine the fair market values for all other assets, such as real estate, non-K-1 entities, loans, tax liens, etc. Generally, a reasonable estimate of fair market value is satisfactory. It is up to you to verify the accuracy of any numbers provided by third parties. We must receive all IRA asset values by December 31 each year.

Required Minimum Distributions

You are required to take out Required Minimum Distributions (RMDs) every year once you turn 70½. The IRS requires that you provide a fair market valuation of your non-cash assets held in your account each year. This is to ensure that you take out the correct amount. You must take the distribution by Dec. 31 of each year, except for the year in which you turn 70½. Your first distribution can be delayed until April 15 of the following year for your first RMD year. Failure to take RMDs can subject you to a 50% penalty for the amount not distributed.

AET will send you a valuation e-mail each year. This will be sent around the November time frame each year. You will need to respond to the letter by sending back an e-mail or faxing in the new asset valuations. Since RMDs are a taxable event, the valuations must be more formal.

AET will send you an RMD letter at the beginning of year. The letter will show your estimated RMD amount based on your age, asset value on Dec. 31, the prior year, and your marital status.

RMDs for Inherited IRAs

When you are the beneficiary of an inherited IRA account, you are also subject to RMDs. The rules outlined above (Required Minimum Distributions) will also apply to you except the 70½ age criteria. As a beneficiary, you will be subject to RMDs every year regardless of your age or the age of the deceased account owner.

Taxable Event Valuations

Whenever a taxable event occurs, AET must report the IRA’s taxable amount on Form 1099-R. This can include distributions, Roth conversions, RMDs, etc. If we need to issue a Form 1099-R, the IRS will expect a more formal valuation. Under Proposed DOL Regulation 2510.3-18(b)(2), “fair market value” has been defined as: “the price at which an asset would change hands between a willing buyer and a willing seller when either party is not under any compulsion to enter into the transaction.” You might ask your advisor to also review Rev. Rul. 59–60, 1959–1 C.B. 237, for additional guidance in determining the value of plan assets.

Please note that it may be to your advantage to have your assets professionally valued anyway, since some “valuation discounts” (lack of marketability, minority interest, etc.) can substantially lower the taxable value of certain IRA assets. Consult your tax advisor about this subject.

Loss of Investment Value

You and your advisors are responsible for choosing your IRA’s investments with sufficient care. Remember, AET does not provide any due diligence, validation, vetting or monitoring of them. If a third-party manager embezzles funds, or you unknowingly invest in a Ponzi scheme, or the new start-up you invested in simply goes bankrupt, AET will not be involved in trying to recover lost funds nor will it represent you or your IRA in any litigation. You or your own attorney can do so. Any attorney (or other advisor) you hire must agree to act as **your** agent, not AET’s.

If your IRA investment sustains a substantial loss of value, then we can mark down the reported value (for Form 5498 and 1099-R tax purposes). Unfortunately, while we can sympathize with a victim’s plight in an already distressing situation, the IRS will not permit us to accept an IRA owner’s word that their asset value is substantially less. Therefore, we must have documentation of an independent valuation that verifies the new lower value.

For bankrupt entities or investments under investigation, we’ll need a formal report (showing the anticipated residual value) from the court-appointed receiver/trustee. For real estate, an MAI appraiser is acceptable. For any other assets, we’ll need a valuation report from an independent appraiser experienced in appraising that type of asset.

You also can try to sell your unwanted asset to a non-DQP for \$10.00 (or some other value) in an arms-length transaction. A notarized bill of sale would provide us with a validated lower value. Obviously, to avoid an IRS fraud claim, if the asset later regains any value, only the independent purchaser can receive that increase in value. You cannot receive any future benefit from it.

Be aware that AET will continue to collect its standard fees even if your assets have lost value. Failure to pay fees will result in the closing of your account. If you have not provided sufficient documentation or a valid bill of sale, the distribution amount we report on Form 1099-R will use the last known value. You can later explain to the IRS the taxable distribution value you believe to be more accurate and provide them with whatever evidence they require. Note that the IRS also has special rules for deducting IRA losses; check with a tax advisor to see if you qualify.

Plan Loans

The IRS has stated in its Publication 590 that loans from an IRA to a DQP are not permitted. Loans to independent persons/companies are permitted. For example, your IRA can act as a hard money lender to non-DQP real estate investors or make other short-term or long-term loans. You should secure an IRA loan with adequate collateral from the borrower in case of default.

Profits from excessive, short-term loaning activity might be deemed active income subject to UBIT. Consult your tax advisor to determine how your IRA’s loan activity will be taxed. There might also be issues with federal, state or local banking/lending laws. Consult a competent legal advisor before engaging in substantial lending activity. AET does not monitor or advise on this.

Personal Pledges, Guarantees or Collateral

A DQP cannot offer a personal guarantee or any collateral for your IRA's investments. Likewise, IRA assets cannot be pledged as collateral for a DQP's personal transactions. For example, if your IRA is purchasing real estate, you cannot agree to guarantee the mortgage in case of default by the IRA. And if your IRA engages in commodities/options trading, then your other accounts cannot be used as collateral to cover IRA losses, nor can you personally guarantee margin calls.

Any debt used to finance an IRA acquisition must be fully "nonrecourse" to you and other DQPs as well as to your IRA – this means if the debt is unpaid, the lender's only recourse is against the asset secured by the debt, not against you, another DQP, or your IRA's other assets.

It is up to you and your own advisors to ensure that any agreement signed on behalf of your IRA meets all IRS and other rules.

Questions About Your Account

AET has a number of third party administrators and advisors that use our services. If you have questions relating to your IRA account, funds, processing, statements, etc., please contact your respective advisor or account representative.

Please do not have investment third parties, property managers, escrow officers, etc. contact us. We must follow bank privacy laws and we will not speak with unauthorized persons about your account. If you have not signed and submitted a Limited Power of Attorney document to AET, you must contact us yourself regarding your account and relay the information to the third parties.

If you have consultation questions about your investments, please contact your chosen advisor.

We hope this Guide has been helpful and we wish you the best in your self-directed investments.

END