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Protecting an IRA from Prohibited Transactions in 5 Easy Steps

What is a prohibited transaction?

A prohibited transaction occurs when an IRA owner uses IRA assets in a self-serving or self-dealing manner that improperly benefits the IRA owner.

When should you look for a prohibited transaction?

It may be a prohibited transaction anytime an IRA owner or beneficiary has a self-directed IRA account invested in a business in which the account owner also engages outside of the IRA, has unexplained large deposits or balances in the IRA, or funnels business expenses or income through a Roth IRA.

 # 1 Who does it benefit? Make sure that all IRA transactions are done for the benefit of the IRA only. All transactions should be arms length transactions and should be made at current market rates.

 # 2 Personal and IRA assets don't mesh. Do not comingle personal assets and IRA assets or use personal assets for the benefit of the IRA or its assets. For example, if your IRA owns a rental home, you cannot spend time at the rental home, even if you pay your IRA the fair market rent that any other third party would.

 # 3 You can't make a deal with your IRA. You cannot borrow from your IRA, lend to your IRA, or pledge your IRA assets as collateral for a loan.

 # 4 Watch out for promotional scams. Promoters/promotions that say a strategy is approved by the IRS are trying to pull a fast one. IRS does NOT approve or recommend IRA transactions or investments.

 # 5 Too many cooks in the kitchen. A transaction that requires multiple entities to accomplish a strategy that would not normally be allowed in an IRA is probably a prohibited transaction.

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