



**STRATA**  
TRUST COMPANY

# AN OVERVIEW OF ALTERNATIVE ASSETS IN SELF-DIRECTED IRAS

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## THE UNTAPPED MARKET

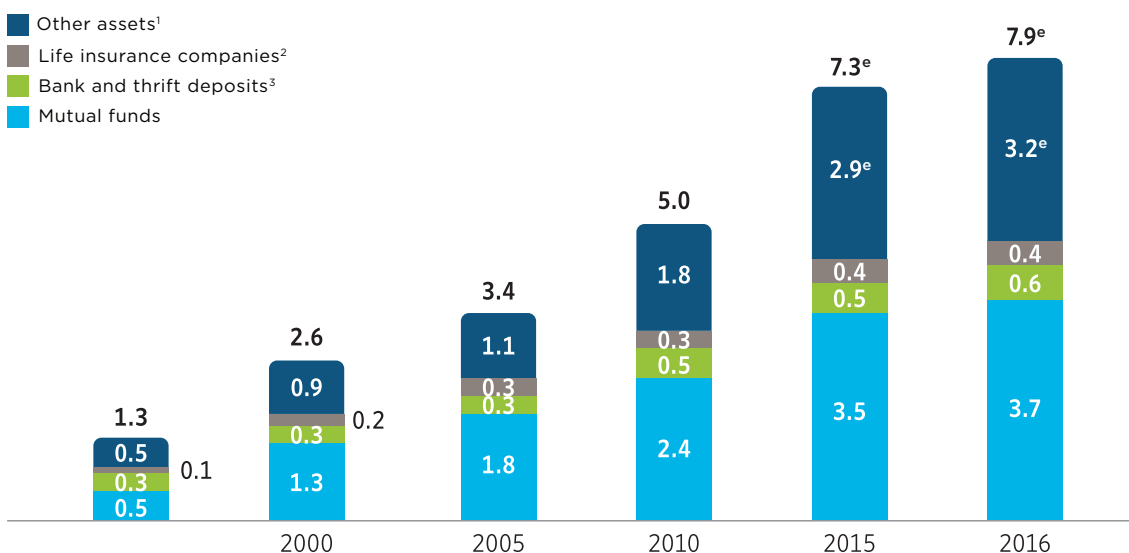
With the uncertainty in today's financial market, many advisors and their clients are seeking options which allow them to diversify their retirement accounts beyond mainstream investments. Additionally, investment issuers are seeking new sources of capital for their new start-up,

equity fund, or real estate development. That's where the self-directed IRA can provide a solution to both the advisor/client and the investment issuer.

According to a recent [Investment Company Institute report](#), IRAs held \$7.9 trillion in assets at year-end 2016. ICI also reports that one-third of US households, or nearly 43 million,

### IRA Assets

Trillions of dollars; year-end, selected years



<sup>1</sup> Other assets includes individual stocks, individual bonds, closed-end funds, ETFs, and other assets held through brokerage or trust accounts.

<sup>2</sup> Life insurance company IRA assets are annuities held by IRAs, excluding variable annuity mutual fund IRA assets, which are included in mutual funds.

<sup>3</sup> Bank and thrift deposits include Keogh deposits.

<sup>e</sup> Data are estimated.

Note: Components may not add to the total because of rounding.

Sources: Investment Company Institute, Federal Reserve Board, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division. See Investment Company Institute, "The US Retirement Market, Fourth Quarter 2016."

STRATA Trust Company ("STRATA") performs the duties of a directed (passive) custodian, and as such does not provide due diligence to third parties regarding prospective investments, platforms, sponsors, dealers or service providers. As a custodian, STRATA does not sponsor, endorse or sell any investment and is not affiliated with any investment sponsor, issuer or dealer. STRATA does not provide investment, legal or tax advice. Individuals should consult with their investment, legal or tax professionals for such services.

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owned at least one type of IRA as of mid-2016. Only a small portion of those funds are invested in true alternative assets which opens a new market for advisors and clients looking to diversify their retirement portfolio as well as providing investment issuers with a new source of potential investment capital.

## THE JUMPSTART OUR BUSINESS STARTUPS ACT (JOBS ACT)

In April 2012, Congress passed the Jumpstart Our Business Startups Act (JOBS Act). Section 201(a)(1) of the JOBS Act directs the SEC to remove the prohibition on general solicitation or general advertising for securities offerings relying on Rule 506 provided that sales are limited to accredited investors and an issuer takes reasonable steps to verify that all

purchasers of the securities are accredited investors. By requiring the SEC to remove this general solicitation restriction, Congress sought to make it easier for a company to find investors and thereby raise capital.<sup>2</sup>

In addition, [Title III of the JOBS Act](#) created a federal exemption under the securities laws to permit crowdfunding as a method to offer and sell securities.<sup>3</sup>

Because of this legislation, investors have greater access to a wide array of investments, and investment issuers have a greater source of investment capital to fund their new ventures.

## THE IRA CUSTODIAN

As a directed custodian, Strata Trust Company (“STRATA”) provides the unique ability to custody self-directed IRAs that hold a wide

<sup>2</sup> <https://www.sec.gov/news/press/2013/2013-124-item1.htm>

<sup>3</sup> <https://www.sec.gov/news/pressrelease/2015-249.html>



✓ Real Estate



✓ Crowdfunding



✓ Private Equity



✓ Precious Metals

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array of alternative and private placement investments such as private LLCs, LPs, corporate debt, crowdfunding equity/debt offerings, and corporate debt offerings. We offer advisors and their clients complete investment flexibility beyond what most banks, brokerage firms and other financial institutions allow.

In general, custodians provide processing services and recordkeeping for the IRA such as quarterly and annual statements to the client and/or advisor, and they complete tax reporting such as filing forms 1099R and 5498 with the IRS.

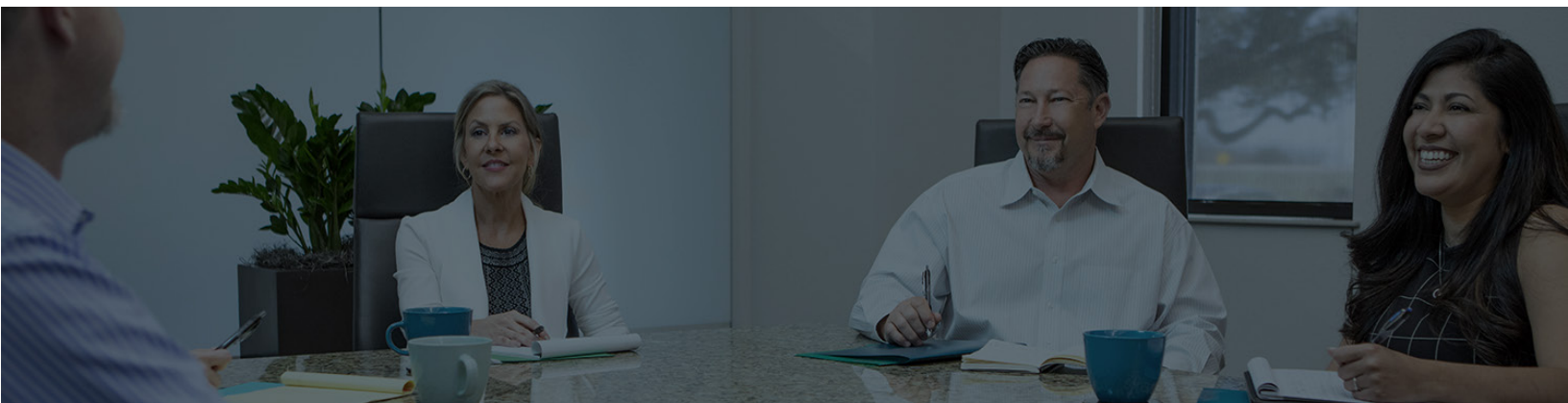
As a directed custodian, STRATA does not approve or endorse the actual investment, and we do not perform any due diligence or determine the suitability of any investment. The clients and/or their advisors are solely responsible for the selection, retention, and management of the assets in their IRA and

should consult with legal or tax advisors prior to directing STRATA to process any investment on behalf of their IRA.

## BENEFITS OF THE SELF-DIRECTED IRA

The opportunity to invest using IRA funds can help advisors, their clients, and investment issuers in several ways:

- ✓ Diversify investment holdings that may not correlate directly to the stock market.
- ✓ Capital gains are tax-deferred in a traditional IRA and tax free in a Roth IRA (penalties may apply for early withdrawals).



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- ✓ Self-directed IRAs may also be an option for individuals who don't have immediate liquidity needs since many alternative assets have a longer hold period than traditional market securities.
- ✓ Funds are more readily available for investing. Unlike disposable income, retirement account money is usually easier and faster to access once the investor decides to invest.
- ✓ An IRA custodial relationship enhances your fundraising. If you have a relationship in place with an IRA custodian when you approach investors, simply mentioning that you can accept their retirement funds can provide another avenue for an investor to consider.
- ✓ Investors are seeking more alternative investments. With the current economic downturn, it's no secret that more investors are trading their attraction to the stock market for alternative investments.
- ✓ Increase the perception prospective investors have of you. By informing prospective investors and prospects about the opportunity to invest using their retirement funds, you can provide the valuable knowledge of something

they may not have thought was possible. Many investors still think that investments in their retirement accounts are limited to stocks and mutual funds. While this is slowly changing, many are not aware that investments in real estate, private equity and much more can be made in a self-directed IRA.

## IMPORTANT INFORMATION REGARDING SELF-DIRECTED IRAS

### Unrelated Business Taxable Income

Limited partnerships, limited liability companies and other entities that carry on an unrelated business or borrow funds to finance the acquisition of property may generate Unrelated Business Taxable Income (UBTI). UBTI is generally reported on Schedule K-1 issued by the entity. If the UBTI attributable to a retirement account exceeds \$1,000 for any taxable year, IRS Form 990-T must be filed along with the appropriate amount of tax, payable from the IRA. STRATA does not

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monitor UBTI and does not prepare Form 990-T. If the tax is applicable, the client must prepare, or have prepared, Form 990-T and forward it to STRATA along with an Expense Payment Form to pay the tax from the IRA. If required to file Form 990-T, the client must apply for and utilize an Employer Identification Number ("EIN"). Clients may not use STRATA's EIN or their social security number. For more information on UBTI, please refer to [IRS Publication 598](#).

### Fair Market Value of Alternative Assets

The IRS requires custodians to report the value of IRA assets on an annual basis. In order for STRATA to custody alternative assets, investment sponsors must commit to provide STRATA with an updated valuation on at least an annual basis. Otherwise, the client must obtain an independent third-party valuation each year for the asset.

### Prohibited Transactions

[Internal Revenue Code Section 4975](#) defines a prohibited transaction as a transaction between a plan (the IRA) and a disqualified person. In general, "disqualified persons" are defined to be the accountholder, other fiduciaries, certain family members (lineal descendants and spouses of lineal descendants) and businesses under the accountholder's (or disqualified person's) control. Please review the Code for specific information and definitions. Other useful resources are IRC Section 408(e)(2)(A), Publications 560, 590-A, and 590-B.

If the IRA engages in a prohibited transaction, the IRA will be disqualified and lose its tax-exempt status. The IRA will be treated as distributing all its assets, and the client may also be subject to additional taxes and penalties. Clients and advisors should review the applicable codes and consult with legal or tax advisors for more information.

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## ABOUT US



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Strata Trust Company ("STRATA") has quickly catapulted to become a premier national custodian for alternative assets and non-exchange traded investments in self-directed IRAs. Formerly known as Self Directed IRA Services, Inc., STRATA has been helping investors use their retirement account funds to invest in alternative and traditional investments since 2008. STRATA currently serves over 33,000 individuals nationwide with over \$1.8 billion in assets under custody.

With offices in Waco and Austin, Texas, our team's vast experience in handling the details and complexities that alternative investments require is unrivaled. Our seasoned management team's experience in the custody of alternative assets spans over 350 years. With a well-established reputation for honesty and integrity, STRATA is committed to delivering responsive, flexible and innovative solutions.

At STRATA, we work to ensure the highest standards for safety and soundness are met. As a subsidiary of Horizon Bank, SSB, STRATA is a Texas-chartered trust company regulated by the Texas Department of Banking, which has long set the benchmark among state banking regulators. Strict controls are in place to ensure the safety of un-invested cash and independent auditors are retained to conduct regular audits of our operations.

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