WELLS FARGO Advisors

Any Questions?
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Prohibited investments and transactions in IRAs

IRA holders have a wide range of investment choices available to them. These include but are not limited to publicly traded stocks, bonds, Certificates of Deposit (CDs), annuities, and mutual funds. However, there are certain types of investments and transactions that the IRS does not allow in IRAs. These prohibited transaction rules are in place to prevent investors from attempting to use their IRA for personal gain, other than earning interest or normal returns on an investment. The rules stop you from using IRA assets in a self-dealing manner.

Engaging in these prohibited investments and transactions can have severe consequences. If an IRA owner or their beneficiary engages in a prohibited transaction in connection with the IRA at any time during the year, the account typically stops being an IRA as of the first day of the year. Furthermore, the IRA is usually treated as having distributed all of its assets at the fair market value as of the first of the year. Taxes and penalties may apply. Even though a specific investment may not be prohibited by the IRS, an IRA custodian may have restrictions. For example, a bank IRA custodian may limit your IRA investment choice to CDs.

IRS prohibited investments

The IRS does not tell you what you can invest in but rather what you cannot invest in within an IRA. Prohibited investments include the following:

- Alcoholic beverages
- Artwork
- Antiques
- Certain tangible personal property
- Coins*
- Gems
- Life insurance
- Metals*
- Rugs
- Stamps

*Certain exceptions apply

Investment and Insurance Products:

• NOT FDIC Insured • NO Bank Guarantee • MAY Lose Value

Prohibited person

In addition to the types of investments, there are people and entities prohibited from engaging in transactions with your IRA. These are called disqualified persons. The IRS considers any improper use of your IRA by you, your beneficiary, or any disqualified person as a prohibited transaction. The definition of a disqualified person is complex. It includes, but is not limited to, the following:

- The IRA owner
- The IRA owner's spouse
- The IRA owner's ancestors and lineal descendants (i.e., parents and children)
- Spouses of the IRA owner's lineal descendants (i.e., son- or daughter-in-law)
- Investment managers and advisors
- Anyone providing services to the IRA (i.e., IRA custodian/trustee)
- Any corporation, partnership, trust, or estate in which the IRA owner or disqualified person has a 50% or greater interest

If your IRA is invested in non-publicly traded assets or assets that you directly control, the risk of engaging in a prohibited transaction in connection with your account may be increased.

Why all the rules?

These rules are in place to prevent self-dealing. If the IRA is engaged in transactions that in some way benefit any disqualified person it will be considered self-dealing. Remember, the intent of the IRA is to provide for retirement income, not for immediate personal enrichment of the owner, so all transactions must be considered arms-length transactions. This means that, in general, the IRA owner cannot be an officer, director, or 10% or more shareholder of the company whose shares are held in the IRA, or cannot be highly compensated by any company in which the IRA is investing. You also cannot personally transact business with your IRA. For example, you cannot buy or sell assets that you own outside the IRA to your IRA.

Examples

Although the IRS provides broad guidance, in some cases it can be unclear whether or not a specific investment or transaction could be deemed as a prohibited transaction or if there is an exception that may apply. Common examples of possible prohibited transactions include, but are not limited to, the following:

- **Borrowing money from your IRA.** You lend your spouse money from your IRA.
- **Purchasing private equity owned by a disqualified person.** You use your IRA to invest in your child's startup company.
- **Selling property to your IRA.** Your spouse sells property to a third party who then sells it to your IRA.
- **Furnishing goods, services, or facilities.** You buy a house with funds from your IRA and then hire your child-in-law to renovate.
- **Receiving unreasonable compensation for managing IRA assets.** You pay the asset manager more that similar IRAs pay for the same services.
- **Using the IRA as security for a loan.** You use your IRA as collateral for a loan to buy a new car.
- **Buying property for personal use with IRA funds.** You use your IRA to buy a house that you plan to vacation in or your child plans to live in whether or not they pay rent (this applies even if the person uses the property for only a few days).

Talk to Wells Fargo Advisors

At Wells Fargo Advisors, we strive to educate our clients on the many facets of investing for their retirement. Since this topic is complex, please seek the advice of your tax and/or legal advisors for questions or clarifications.

With you every step of the way

Everyone has a different vision of retirement that requires a unique financial strategy. Wells Fargo Advisors can support you in your retirement planning process by providing the guidance needed to make informed choices. We will meet with you and help create a comprehensive plan that takes into account your complete financial picture. Your financial advisor will be with you every step of the way to meet to review your progress and adapt your plan as needed. Working together, we'll design and implement a retirement plan that will help you live out your unique vision of retirement.