

# Anchin Compensation and Benefits Services Group

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## Individual Retirement Accounts: Be Careful What You Invest In

To Our Clients and Friends:

One item that makes Individual Retirement Accounts (IRAs), whether traditional or Roth, so appealing compared with employer-sponsored 401(k) plans is the variety of available investment choices. While 401(k) plans often come with a narrow menu of investment options (typically mutual funds), the variety of IRA investment options is much greater. Although it is true that IRAs provide a platform for certain non-traditional investments, certain investments are either prohibited or not tax-efficient.

### Prohibited Investments in an IRA

The following types of investments are not permitted within an IRA. Such investments could cause the IRS to treat all or part of your IRA assets as “deemed distributions” to you, with costly tax consequences:

- Life insurance products
- Collectibles such as artwork, rugs, antiques, metals, gems, stamps, most coins, wine and any other highly speculative assets deemed to be a “collectible”
- Stock in a Subchapter-S Corporation
- Transactions with yourself or a related person (“self-dealing”), such as
  - lending IRA funds to yourself or a related person or entity
  - investing in a business that you control
- Investing in a residence for your personal use

### Assets That Are Not Tax-Efficient

One of the primary purposes of an IRA is to allow assets to appreciate in value while deferring any tax liability until retirement, thereby maximizing asset appreciation. Investing in the following types of assets could lead to the Unrelated Business Income Tax (UBIT) being imposed. UBIT is an income tax that can be imposed on normally tax-exempt entities such as an IRA:

- An operating business
- Real estate that is debt-financed
- A hedge fund that uses leverage to make investments
- A master limited partnerships (MLP)

If UBIT applies, the IRA must file Form 990-T and potentially an equivalent state tax form, with the resulting tax paid out of IRA assets.

Tax rules pertaining to Individual Retirement Accounts are complex. Please contact your Anchin relationship partner with any questions pertaining to the possible taxation of your IRA investments.



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