

Investing in Tax Liens and Tax Certificates in Your IRA



American IRA, LLC



Declare independence from Wall Street! Self-directed IRAs and other retirement accounts let you take personal control of your assets.



Be Different!

Most people limit their retirement investment thinking to the expensive, fee-laden mass market financial products currently packaged for them by Wall Street. That's great for passive investors who don't mind giving up control - and money. For those willing to put some effort into their retirement security, though, you may have opportunity right in your own community - investing in tax liens and certificates. This little-understood and undersubscribed investment market lets you support your local community schools and libraries and other services, while profiting at the same time.

What Are Tax Liens and Certificates?

Here's how it works: All property owners must periodically pay real estate taxes their city, county and/or state governments, depending on the local laws and ordinances. These property taxes, of course, go to fund needed services such as public schools, libraries, police and fire protection,

trash pickup, and many other important functions.

When a property owner becomes delinquent on his or her taxes, local governments still have a need for cash. When that happens, rather than foreclose on the property, a local government may offer members of the public a chance to pay property taxes on that property owner's behalf. You then get a lien on the property.

Before the property can be sold, the owner must satisfy the lien. That means you must be paid back, with a very attractive rate of interest - frequently between 12 percent and 50 percent, depending on the laws in your local jurisdiction.

It's Easy.

As long as you avoid a few specific investments such as life insurance, jewelry and gemstones, collectibles and alcoholic beverages, keep your retirement money strictly segregated from your other assets, and observe a few commonsense rules designed to prevent conflicts of interest, it's very easy to get started in tax lien/ tax certificate investing, using a

self-directed retirement account. When you open a self-directed account through American IRA, LLC, the sky's the limit, and *you* are in control.

Roll Over to a Self-Directed Account

If you currently have a 401(k) from a former workplace, or even if you are still working there and your plan allows for in-service withdrawals, you can execute a tax-free rollover from a 401(k) to a self-directed 401(k) or IRA that allows you to invest in private lending.

Advantages

In some ways, these income-generating investments are the *ideal* IRA, 401(k) or SEP investments: The traditional form of the IRA allows you to shelter all the income generated from income taxation. In the case of Roth IRAs, the income generated and all capital growth is *free* of federal income tax, (provided the money has been in the Roth account for at least 5 years and you are at least 59 1/2 yrs. old).



Using a self-directed IRA or other retirement account puts YOU in control. You aren't beholden to Wall Street. You select the deals you want to participate in, and keep more of the profits for yourself and your family.



Why Consider Self-Direction?

It's more important than ever to create retirement income that's independent of the government. Here are a few reasons why:

People are living longer. The number of centenarians is doubling every dozen years or so throughout the developed world. Chances are excellent that by the time you and your spouse reach your golden years, your retirement savings will need to provide 25 to 30 years worth of income. That's like making up for an entire career between the ages of 65 and 95!

Social Security is in trouble. Current projections forecast that the Social Security trust fund will be exhausted by 2036. To pay guaranteed benefits, Congress will need to draw more and more funding out of general revenue on the backs of a shrinking tax base. The funding needed to keep up current payouts simply isn't there; something has to give. Chances are excellent that Congress will eventually pass significant cuts, in one of two ways: raising the retirement age or means testing.

All of our clients need to be prepared; private savings in retirement accounts are critical.

Interest rates and dividend yields are near historic lows. Returns on investment in stocks and bonds – and by extension, mutual funds – are also way down. This makes accumulating retirement money with these conventional financial instruments much more difficult than it was a generation ago. Low interest rates and stock dividends mean it's tougher than ever to amass a sufficient nest egg with conventional IRA investments. That's where self-direction comes in.

Traditional pension plans are going the way of the dinosaur. The current workforce cannot rely on pension plans like previous generations did. Fortunately, many investors have learned the advantages of investing in a self-directed retirement account. The process of purchasing and selling assets is the same inside and outside the IRA – the only difference is that an asset owned by an IRA must be vested in the IRA's name.

The other advantage is that assets inside an IRA are tax-deferred or tax-free depending on the IRA type.

A self-directed IRA combines the advantages of tax deferral (and in the case of Roth IRAs, tax-free growth) with the entrepreneurial and alternative investment opportunities normally associated with fully-taxable accounts.

You Are In Charge.

With self-direction, *the choice is yours!* You are free to pursue a much broader and more flexible asset allocation strategy, combining tax lien investments with more conventional income investments, stocks, bonds, precious metals, annuities and other asset classes.

As your expertise develops in tax lien investing, chances are very good you will be able to extract extra yield from your portfolio, all the while reducing overall risk, and taking advantage of the substantial tax benefits of IRAs, SEPs, self-directed 401(k)s and other tax-advantaged retirement savings vehicles.



Tax liens are debt instruments secured by an interest in real estate. However, they typically pay an above-market interest rate.



Considerations for Tax Lien and Tax Lien Certificate Investing

Tax lien certificates are essentially debt instruments that are secured by real estate. Essentially, you are lending the property owner cash by paying the taxes on their behalf. You are entitled to charge interest on this loan, of course, and the interest is generally substantial, compared to other forms of secured debt.

Specific rules and procedures vary by jurisdiction, but the general rule is this: Any investor holding a tax lien on a property or a tax lien certificate must be paid before the original owner can transfer title.

Furthermore, the lien you hold is the *first-position* lien. That means you get paid *first*, before even the mortgage lender who previously held the first-position.

What Happens if an Owner Doesn't Pay?

Again, specifics vary by jurisdiction. But generally, the property owner has a limited amount of time to pay off the tax

lien or lien certificate - all the while interest accrues. After a certain amount of time elapses, commonly three years, however, government officials simply award the property outright to the lienholder.

Naturally, this is an extremely profitable event for the lienholder - you could potentially acquire a property for pennies on the dollar. It is rare, however, for this to occur, as property owners naturally will do everything they can to avoid forfeiting the property over something as small as the taxes due. So the usual arrangement is that lien and certificate holders content themselves with the substantially above-market interest rates that their investment earns them.

Meanwhile, returns from investing in tax liens and certificates are generally uncorrelated with returns from other assets. This makes them an attractive option when paired with other accounts with more traditional investments in stocks, bonds, precious metals, or ownership interests closely-held businesses, partnerships and joint ventures - all of which you can hold within self-directed IRAs and other retirement accounts!

Note: All payments received from customers or clients must be accompanied by a *deposit coupon* prior to the funds being deposited into your IRA's cash account.

Other Options

As we mentioned, you aren't limited to self-directing IRA accounts. See our other brochures in this series for information on how you can take personal control of the assets in your solo 401(k) plan, Roth IRA, SEP, SIMPLE IRA, and even in your Health Savings Account!

About American IRA

American IRA, LLC, with offices in Asheville and Charlotte, North Carolina, specializes in providing third-party administrator (TPA) services for owners of self-directed retirement accounts, including IRAs, Solo 401(k)s, SEPs, SIMPLE IRAs and others. Founder James Hitt has decades of experience in private enterprise and in self-directed retirement investing.

We only charge for services that you actually use, rather than as a percentage of your total assets. All cash is deposited in an FDIC-insured account when not committed to other assets.



Adhering to these rules concerning prohibited transactions is critical. Failure to abide by them can result in your entire IRA being disallowed.



Rules and Requirements

While IRAs are tremendously flexible vehicles, they do have limits. IRS rules place certain restrictions on the *kinds* of transactions you can make within IRAs and who you can make them with. In order to ensure the preservation of the preferential tax treatment your IRAs enjoy, it's critical to have experienced professionals on your side; otherwise you could inadvertently make a prohibited transaction or distribution - which could result in the loss of all the tax advantages of your retirement account and possible immediate tax liability.

General rules concerning IRAs

☒ You may not lend to or borrow from your IRA. Nor may any prohibited individual, defined as your spouse, either of your descendants or ascendants, any professional advising you on your IRA or other relevant retirement account. The same goes for any entities these individuals may hold or control.

☒ Your IRA may not purchase/sell any assets whatsoever from/to you, nor from or to any of the prohibited counterparties listed above.

☒ You may not invest in any assets prohibited by the IRS. For example, you can't own jewelry, art, collectibles, unauthorized forms of gold, silver or platinum coin or bullion, life insurance or alcoholic beverages within your IRA (though your IRA may own stock in a business that owns these things). You also cannot buy property that was previously owned by prohibited persons or entities, as specified above. This also means you can't use a 'straw buyer' as an intermediary to create a 'back-door' prohibited transaction.

☒ You may not take personal possession or make personal use of property in your IRA or other retirement account.

☒ You must pay any expenses *from funds within the IRA*. You may not intervene with your own funds beyond the allowable contribution each year (see our Website), plus any allowable rollovers from other accounts.

☒ You may not pledge your IRA as collateral for any loan outside of the IRA.

☒ You may not lend to or borrow from your IRA. Nor may any prohibited individual or entity make a loan to or borrow from your IRA. The same goes for other types of self-directed accounts, too.

Risks

It is unusual, but it is possible to lose money in a tax lien situation. This occasionally occurs when an investor buys the rights to a large tax lien on a property with major structural problems. You could lose money, potentially, if the property is actually worth less than the taxes owed on it, and the owner defaults on his tax obligations.

In the event of a loss, the entire loss must be absorbed within your self-directed retirement account, including allowable new contributions. If you have any doubt about whether a transaction is allowable or not, contact American IRA, LLC and/or your own investment advisor. *Note: American IRA, LLC does not provide specific tax advice.*

Self-Directing your IRA Investments gives you...

- More choices
- More diversification
- Potentially higher income/yields
- More control
- Freedom to focus on your areas of expertise
- Personal satisfaction, for those who enjoy managing their own money

Declare Independence from Wall Street!

To find out more, or for a detailed consultation, call us today at 1-866-7500-IRA (472).

Notice: American IRA, LLC is a third-party administrator and does not give legal, accounting, tax, investing or other specific advice. For information and advice specific to your individual situation, you should seek the services of qualified and licensed professionals practicing in your state.

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