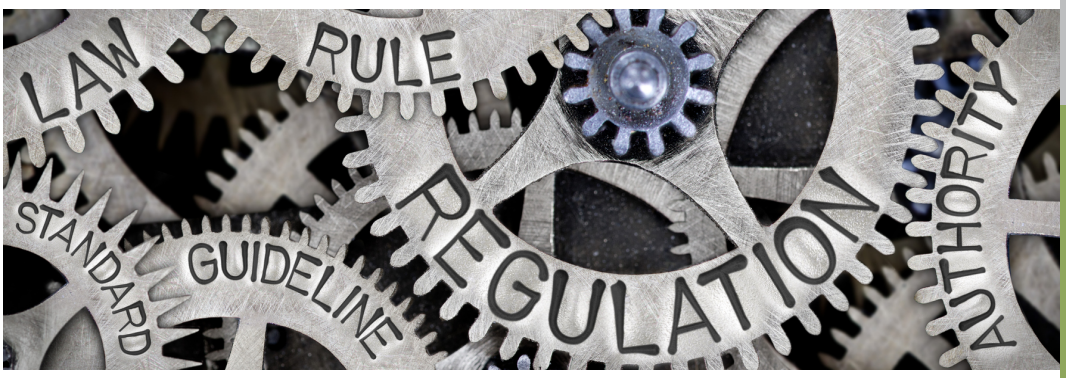
M2 IRA SERVICES

Prohibited Transactions with Disqualified Persons

Before beginning the self-directed IRA investing journey it's important to understand the Rules in order to avoid creating a Prohibited Transaction.



PROHIBITED TRANSACTIONS WITH DISQUALIFIED PERSONS

According to the Internal Revenue Code (the tax law) and the IRS (organization enforcing tax laws), **Prohibited Transactions** are transactions between a plan (the IRA) and a disqualified person that are prohibited by law. In order to understand the Rules, it's important to understand who is considered a **Disqualified Person**.

Disqualified Persons include you, the account owner and fiduciary. You are acting as a fiduciary whenever you choose to self-direct an investment. Additional Disqualified Persons include your parents, your spouse, your children and their spouses and any business in which you are a 50% or more owner or highly compensated employee.

Prohibited Transactions generally include the following:

- Transfer of plan income or assets to, or for use by or for the benefit of, a disqualified person.
- Act of a fiduciary by which he or she deals with the income or assets of the plan for his or her own interest.
- Receipt of consideration by a fiduciary for his or her account from any party dealing with the plan in a transaction that involves the plan's income or assets.
- Selling, exchanging or leasing property between a plan and a disqualified person.
- Lending money or extending credit between the plan and a disqualified person.
- Furnishing goods, service or facilities between the plan and a disqualified person.

What does this mean to you, a self-directed IRA investor?

Specifically, it means that you are prohibited from doing any of the following activities.

- Do not use IRA funds to pay off your mortgage.
- Do not use IRA funds as collateral for a loan.
- Do not have any personal benefit from the IRA-owned asset (for example: vacation home, boat slip, commercial building).
- Do not allow any disqualified person to have any personal benefit from your IRA-owned assets.

It's important to know that whenever a disqualified person engages in a prohibited transaction there will be tax and penalty implications.

Self-directed investors are encouraged to review Internal Revenue Code Section 4975 that provides details on Prohibited Transactions with Disqualified Persons. You can find a link to the document under the Learning Center tab on the M2 Trust website.