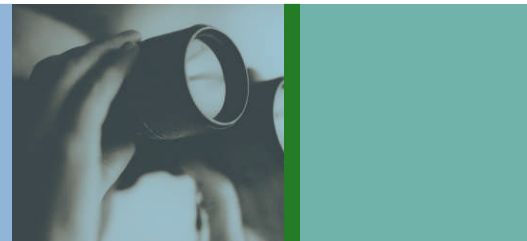


IRA & 401(k) Insights



About: *IRA & 401(k) Insights*

IRA & 401(k) Insights is a monthly publication. This publication is for anyone interested in self-directing their retirement funds and investing in nontraditional assets. Entrust does not give investment advice. Nothing in this publication is intended as tax, legal or investment advice. Entrust does not sell securities or other investments products.

Deadline for article consideration is the 15th of each month. To subscribe to *IRA & 401(k) Insights*, call 888-340-8977 or email:

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Message From the Editor

Welcome to the December/January issue of IRA/401(k) Insights!



From all of us at The Entrust Group, we would like to wish you a joyful holiday season and a happy and prosperous New Year!

Enjoy our December issue.

Lisa Moren-Bromma
Editor

editor@theentrustgroup.com

FYI...the IRS this week issued the 2007 optional standard mileage rates to calculate the deductible costs of operating an automobile for business. Beginning Jan 1 2007 it will be 48.5 cents.

Oil & Gas Can Balance Your IRA or 401(k) Portfolio

By: Reef Oil and Gas

Richardson, Texas—Reef Exploration, L.P., a nearly 20-year-old Dallas-area oil and gas exploration and production company, realizes that many investors may prefer real estate holdings in their self-directed IRA or 401(k) portfolios.

Did you realize that a direct investment in oil and gas has the potential to provide solid returns in the form of monthly revenue distributions and tax advantages that are not available with your real estate, equity or fixed income investments? Diversifying your portfolio with an energy investment offers powerful advantages against the volatility of the real estate and stock market and, to a lesser degree, even the bond markets.

If you choose your energy investment carefully, Reef believes you may find that oil and gas investments are less dependent on the economy or interest rates when compared to traditional investment vehicles.

Although direct participation in oil and gas programs purchased by a self-directed IRA or 401(k) do not qualify for certain tax deductions, oil and gas programs designed for income rather than drilling offer the potential for monthly revenue distributions and appreciation in value of producing oil and gas wells.

If your IRA or 401(k) is aggressively invested entirely in the equities market, adding a direct investment in energy may actually reduce the overall risk profile of your retirement portfolio and potentially increase returns. Allocating a portion of your non-qualified investment funds to direct investment in oil and gas offers tax deductions for intangible drilling costs (IDCs), operations costs and the depletion allowance.

With careful research, you may be able to identify an energy investment that, over time, will offer a rate of return that is high enough to offset the loss of tax deductions for IDCs and depletion benefits. Thus, you may decide to place your energy investment into the IRA or 401(k).

One thing is relatively certain. While oil and gas prices fluctuate on the daily exchanges of the world, over time, price trends are upward—especially when the time factor and global consumption growth rate is added to the equation.

What type of oil & gas investment is right for you?

Just as your financial advisor attempts to determine your level of risk tolerance before recommending a stock or bond, you must perform the same risk assessment regarding an investment in oil and gas. Can you tolerate a relatively high risk of investing in exploratory drilling, or are you more comfortable with the lower associated risks that come with investing in already established oil and gas fields or producing wells? It's all about the level of risk that

you are able to understand and to tolerate. Of course, there is a learning curve about the risks inherent in oil & gas investments. Start by educating yourself and then consulting your financial advisor or CPA. Make an appointment with, or call your financial advisor to explore the potential of balancing your investment portfolio with a direct investment in the oil & gas industry.



ANY STATEMENTS CONTAINED HEREIN ARE NOT INTENDED OR WRITTEN BY THE WRITER TO BE USED, AND NOTHING CONTAINED HEREIN CAN BE USED BY YOU OR ANY OTHER PERSON, FOR THE PURPOSE OF (1) AVOIDING PENALTIES THAT MAY BE IMPOSED UNDER FEDERAL TAX LAW, or (2) PROMOTING, MARKETING OR RECOMMENDING TO ANOTHER PARTY ANY TAX-RELATED TRANSACTION OR MATTER ADDRESSED HEREIN.

Investors should carefully consider the direct participation programs investment objectives and risks before investing. Direct investment does not by itself constitute a comprehensive plan of investment. Direct participation in oil and gas is only suitable for investors who can afford to withstand changes in the value of their investments. There are no assurances that the investment objectives will be achieved. This is not an offer to sell or solicitation of an offer to purchase any security. The offering of securities is made only by prospectus. Reef Oil & Gas Partners, L.P. is the managing general partner and sponsor of oil and gas direct participation programs. Reef Securities, Inc. is the dealer/manager of oil and gas direct participation programs and is a member NASD-SIPC.

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Real Estate Investing with Your IRA — What Every Real Estate Investor Must Know!

By: Lisa Moren-Bromma

Many Real Estate, Mortgage and Private Lending investors look to use their retirement accounts as a separate entity to invest in Real Estate related assets. Here are a few benefits to using a retirement plan to self-direct your investment strategy.

Using Tax-Deferred/Tax-Free money to accumulate wealth makes sense if you don't need the income or the profit generated off of the investment.

Not having all of your eggs in one basket. Many investors consider real estate a business. Others just dabble in this. Either way, the investor wins with diversification of their investments.

No need for major cash! Even with small dollars in your IRA or Qualified Plan, you have an opportunity to take advantage of wealth accumulation tax-deferred or tax-free! Options, leases, tax liens, small private mortgage notes are just a few of the vehicles one could acquire with smaller amounts, versus one property costing tens of thousands or more!

Sounds great doesn't it? Imagine having the ability to control your retirement dollars with investments you make every day, with an asset base you understand and work in! This all makes perfect sense. However, there are some things every investor must know so they can make intelligent financial decisions while capitalizing on building wealth tax-deferred/tax-free.

1. UBIT. Unrelated Business Income Tax. When you have a debt financed property in an IRA, or if you are running your real estate business out of your IRA/Qualified Plan, you may be subject to UBIT on the profits from the sale or income of the property. Does this mean that you should not buy real estate that is debt financed in your IRA? Absolutely not, as the tax rate that applies is based on the percentage of the debt financed. So if you finance 60% of a purchase and sell it right away, the tax rate on the entire profit is about 24%. In a buy and hold situation, the percentage is based on the average outstanding debt over the previous twelve-month period. In addition, your IRA gets all the write-offs from UBIT for the percentage debt financed. If you haven't had a debt in the previous twelve months, there is also no UBIT. Note that UBIT does not apply to Qualified Plans. You can also avoid UBIT by having a third party pledge of other assets.

2. Non-recourse loans. If you are trying to leverage property (get a loan) in your IRA, finding a non-recourse loan can be difficult. Most lenders want an individual to personally guarantee the loan. The IRA is a separate entity from an individual. Lenders in most cases, will not allow the just the IRA since they have "no one" to fall back on in the case of default. The best places to go to get a non-recourse loans are private lenders, get owner financed, or go to a small, community bank. A lot of investors put their retirement plans into a LLC thinking this is an easier way to get a loan, plus they limit their liability. This is not as easy as one thinks. You can have a better chance at getting a loan from a portfolio lender if you have an unrelated person guarantee the loan, or pledge other assets for the loan.

3. Partnering with your plan. You can personally partner with your plan or IRA to make any investment. So if you have a small amount in your IRA and need much more for an acquisition of property, you and anyone else you know, including companies you or anyone else owns can put up the balance you need to complete the transaction.

4. You can have your IRA own up to 100% of an LLC or C Corp. As long as that entity is used for the exclusive benefit of your plan, you may perform all transactions normally performed by your IRA custodian. It works very much like a Do Your Own Individual (k). You write the checks and close the transactions, process all income and expense. You may not receive any personal benefit, however.

You can do practically any kind of real estate transaction in your Qualified Plan or IRA. This includes options, rehabs, buys and holds, construction, and lending. You just need to know that you can't deal with yourself and members of your family. You can also apply for Private Letters Rulings or Prohibited Transaction

Exemptions, which may be granted to do certain transactions that could normally be considered self-dealing.

By being an informed investor and knowing what the rules and regulations regarding your investment strategy are and how this relates to your financial future, you have the ability to know what you are getting into before you buy! Start out 2007 by being informed!

Lisa Moren-Bromma is the President of The Entrust Group. Since 1981, Entrust has been the leader in administration of self-directed retirement plans. Not all custodians are equal. If you are looking for continuing education, excellent customer service, and a local presence, look no further than Entrust! For more information, log onto our website at www.TheEntrustGroup.com

Case Study on 2006/2007 Contribution Limits

By: H. Quincy Long

In this article we will discuss how much money can be put into various Entrust self-directed plans by Ira N. Richer, his wife Hope B. Richer, and his son Will B. Richer.

Assumptions Made

In order to make sense of what the Richer family does, we must first make some assumptions.

Ira and Hope's modified adjusted gross income (AGI) for 2006 was exactly \$100,000 and will be the same for 2007. This includes \$80,000 in wages paid by Ira's S corporation, Eat Richer Restaurants, Inc., the remaining profits from that company, plus investment income, etc. Hope does not work outside the home, other than helping Ira in his business.

Ira is 56, Hope is 51, and their son Will is 17.

Will worked part time as a busboy at Old San Francisco Steakhouse in Houston in 2006 and earned \$8,000. He expects to continue his employment there in 2007 and earn around \$10,000.

Ira is a diligent saver and has plenty of cash to pay taxes on any Roth conversion Hope does. His company also has plenty of cash in the bank.

Ira's family is covered by a High Deductible Health Plan (HDHP) with his maximum out of pocket expense of \$5,450 for 2006. This plan has been in place since prior to January 1, 2006.

Ira and Hope file taxes jointly.

TIP OF THE MONTH

TAKE ACTION BEFORE THE YEAR END TO FUND YOUR QUALIFIED PLAN!

Reduce your current taxable income while helping build your nest egg for retirement. Make sure to complete your 401(k) deferral by the end of the year. You have until then to maximize this benefit which allows you to put more away today than ever before! Interested in learning more about Qualified Plans and establishing your own 401(k) plan to buy Real Estate? Visit our web site at www.TheEntrustGroup.com to see if you qualify for an Individual (k) plan today...Don't wait! Why pay Uncle Sam? Entrust...educating investors on self-directed retirement plans.

Hope has \$25,000 in a former employer's 401(k) plan which she wants to roll over into a Traditional IRA and possibly convert into her Roth IRA.

Roth and Traditional IRAs

Roth IRA – Since it is before April 16, 2007 (the contribution deadline for Roth and Traditional IRAs for 2006) and Ira and Hope's modified AGI is less than \$150,000, Ira and Hope can both contribute to a Roth IRA for 2006. On January 1, 2007 they can contribute for 2007. Even though Hope does not earn wages, she can still contribute to a Roth IRA based on Ira's income. Since Ira is flush with cash, he contributes \$5,000 into each Roth for 2006 and will contribute \$5,000 into each Roth for 2007 in January, 2007 (\$4,000 base each year plus \$1,000 catch up since they were both at least 50 years of age by December 31, 2006). Their son Will may also contribute \$4,000 to his own Roth IRA for 2006 and \$4,000 for 2007 in January, even if Ira gives him the money to do so, since he had compensation exceeding \$4,000 for 2006 and expects to do so again in 2007.

Traditional IRA – Hope can roll her former employer's 401(k) plan into a Traditional IRA at Entrust. Hope and Ira could have contributed the amounts described under the Roth IRA into a Traditional IRA, but their total contributions to both their Traditional IRAs and their Roth IRAs cannot exceed \$5,000 per person. In this case they elected to put the entire contribution into their Roth IRAs. If neither Ira nor Hope were covered by a retirement plan at work, their contributions to a Traditional IRA would be fully deductible.

Roth Conversion – If Hope wants to, she can convert the \$25,000 from the Traditional IRA she started with her former employer's 401(k) money into her Roth IRA in 2006 or 2007, since her and Ira's total modified AGI was \$100,000 or less. **Important Note: In 2010, the amount of adjusted gross income made by Ira and Hope will not affect their ability to do a Roth conversion. Also, they may pay the taxes from the conversion in 2011 and 2012.** Except for conversions in 2010, Roth conversions are taxable in the year in which the funds are converted, but there is no penalty for doing a Roth conversion.

Work Plans

In addition to contributing money to a Roth or Traditional IRA, Ira can have a plan at his company. In

this case, Ira owns his own business which is an S corporation, but the same plans are available even if he is self-employed and reports his income on Schedule C. With any of the work plans, Ira must also cover any other employees under the plan. This may affect which of the plans he chooses for his business. We will assume that Eat Richer Restaurants, Inc. has no employees except for Ira.

SEP IRA – Since Ira is paid a salary from his business for which he receives a W-2, Eat Richer Restaurants, Inc. can have a SEP IRA plan into which he can contribute up to 25% of his wages. The plan can be set up and funded at any time prior to the corporation's tax filing deadline, including extensions. Ira's wages were \$80,000, so he can contribute \$20,000 to his SEP IRA at Entrust. If he wants to, in January, Ira can begin making contributions for his 2007 SEP IRA as well. **The money contributed to his SEP IRA comes from the employer, which in this case is Eat Richer Restaurants, Inc.** If you change the facts so that Ira is self-employed and his Schedule C shows \$80,000 net income from his business, then Ira can contribute up to 20% of this amount, or \$16,000 into his SEP IRA.

SIMPLE IRA - Another alternative is for Ira to have a SIMPLE IRA at his company. This is not as advantageous at Ira's income level, but is appropriate for those with lower income levels or for those who have employees and who don't want to contribute an equal percent into the employees' retirement plans as they do for themselves. Assuming he had the plan set up by October 1, 2006, he can defer out of his salary \$10,000 for 2006, plus \$2,500 catch up because he was over age 50 by December 31, 2006. For 2007, Ira will be able to defer another \$10,500 plus \$2,500 catch up from his salary. Additionally, Eat Richer Restaurants, Inc. adds another 3% of Ira's salary, or \$2,400. The total 2006 SIMPLE contribution is \$12,500 in salary deferral and \$2,400 in employer contribution for a total of \$14,900. Since this is less than Ira can put in a SEP IRA, he probably will not choose this plan, absent other factors.

Profit Sharing/401(k) Plan – The plan which Ira can put the most money into is an Individual 401(k) plan. A Profit Sharing/401(k) plan must be set up by December 31, 2006 if Ira wants to contribute or defer salary for 2006. In this plan Ira can defer \$15,000 plus \$5,000 catch up for 2006 out of his \$80,000 salary (this increases to \$15,500 plus \$5,000 catch up in 2007). In addition, Eat Richer

Restaurants, Inc. can contribute up to 25% of Ira's wages into the plan, or \$20,000, by the tax filing deadline, including extensions. This means that for 2006, Ira can get \$40,000 into his Individual 401(k) plan!

Even better, starting in 2006, Ira's salary deferral can be a **Roth 401(k)**, which means that he will pay taxes on his salary deferral when he contributes, but will pay NO TAXES when the funds are distributed to him, provided they are qualified distributions. What an opportunity! Although Ira qualifies for a Roth IRA because of his income level, even if he makes too much money to qualify for a Roth IRA he can defer salary into a Roth 401(k). The employer contribution (\$20,000 in Ira's case) is pre-taxed, so part of Ira's withdrawals from the plan will be taxable and the portion relating to the Roth 401(k) will be tax-free.

Having one of the 3 work plans (SEP IRA, SIMPLE IRA, or Individual 401(k)) does not prevent Ira and Hope from contributing to a Roth or Traditional IRA, but does affect the deductibility of Ira's Traditional IRA contribution at their income level.

Additional Choices

Besides a Traditional IRA for Hope's rollover funds, Roth IRAs for Ira, Hope and Will, and an Individual 401(k) plan, SEP IRA or SIMPLE IRA at Eat Richer Restaurants, Inc., the Richer family can also have two other types of accounts. These are the Health Savings Account (HSA) and the Coverdell Education Savings Account (ESA). Like the other accounts they have at Entrust, the HSA and the ESA can be self-directed.

Health Savings Accounts – Ira and Hope can save on taxes for 2006 by opening a Health Savings Account, or HSA. In order to do this, they have to have a special type of insurance plan, called a High Deductible Health Plan, or HDHP. Just having a plan with a high deductible does not necessarily qualify you for an HSA. Since Ira and Hope have a family plan, they can contribute up to \$5,450 for 2006 up until April 16, 2007. Because Ira is over 55 years old, he can add a \$700 catch up contribution for 2006 in addition to the regular contribution. Ira and Hope can split the contribution into 2 separate accounts or put all of it into one account. **Contributions to HSA accounts are tax deductible, and there is no tax on the distributions if the money is used for qualified medical expenses.**

Coverdell Education Savings Accounts (formerly

Education IRA) – Since Will is under age 18, Ira can put up to \$2,000 into a Coverdell ESA for 2006 and another \$2,000 for 2007. Ira will receive no deduction for the contribution, but any earnings which are withdrawn for qualified education expenses are tax-free. Qualified education expenses include certain expenses for grade school and high school as well as for college.

Summary

For the tax year of 2006, here is the maximum amount of money that the Richer family can put into self-directed accounts at Entrust:

Ira's Roth IRA	\$5,000
Hope's Roth IRA	\$5,000
Hope's Traditional Rollover IRA	\$25,000
Will's Roth IRA	\$4,000
Ira's Individual (k)	\$40,000
Ira's HSA	\$6,150
Will's ESA	<u>\$2,000</u>
Total	\$87,150

Assuming all distributions are qualified distributions, the earnings from the Roth IRAs, the Roth 401(k), the HSA and the ESA are tax-free forever! This means that the Richers can get richer by investing as much as \$67,150 tax-free (assuming they convert Hope's Traditional IRA into her Roth IRA) and the balance on a tax-deferred basis. All of these accounts can invest in real estate, real estate options, promissory notes (both secured and unsecured), LLCs, limited partnerships, private stock and much more. They can invest individually or in combination with each other. To find out more about these accounts, contact your local Entrust office today!

H. Quincy Long is an attorney and is President of Entrust Retirement Services, Inc. in Houston (www.entrusttexas.com) and CEO of Entrust IRA Administration, LLC in San Antonio (www.entrustsdira.com). He may be reached by email at QLong@TheEntrustGroup.com.

QUESTION OF THE MONTH

Question:

1. I want to move \$200,000 from my IRA to buy/invest in an empty acre of land to hold for appreciation. It has been approved for building a single family home. I plan to hold it for 10 years or so and then sell it. I might have to build a "spec" house on it some day in order to sell it. Anything wrong with this transaction?
2. What happens to the land if Entrust Group, or the local franchise, gets into financial trouble?
3. Where can I get info on Entrust's financial stability?

Answer:

1. If you wish to have your IRA make the purchase you describe there should be no problem. Your question repeatedly mentions "I" rather than "My IRA". Remember that the two are separate entities. The IRA may make improvements to its investment if it has the funds to do so.
2. The IRA is held in trust by the custodial bank for the benefit of the IRA. In the unlikely event that the Entrust Group stops business, the custodial bank will appoint a replacement administrator.
3. The financial status of the custodial bank is reviewed by the FDIC and applicable state banking authorities and, depending on the specific custodial bank, the SEC and other regulatory agencies. The bank and its agents, including the Entrust Group is included in the supervision of the regulators.

INTERESTING INSIGHTS

Tips for year end tax planning....

Adjust the withholding amount and the allowances you are claiming by filling out a new Form W-4 Employee's Withholding Allowance Certificate with your employer. To do this, figure your total income for 2006 and 2007. Do you think that you may be in a higher income bracket in 2006 than in 2007? See if it makes sense to defer year-end bonuses or other income until 2007 if that's to your advantage.

Make Charitable Contributions and Donations: Generally, for individuals, contributions to tax-exempt charitable organizations are limited to 50% of the taxpayer's adjusted gross income for the tax year. Those unused items cluttering closets can be donated to a qualified charity or non-profit organization and deducted as charitable contributions. Document your donations by saving receipts, cancelled checks and any letters or correspondence from the charity.

Pay state and local income taxes now: That way you can deduct them for 2006. Any payments made on a credit card or by check dated before the end of 2006 are eligible.

Add to your retirement accounts: See if your 401(k) plan offers an opportunity to "catch up" with additional contributions before year's end. There's even more time to add to the value of your IRAs, right up to the April 16, 2007 deadline. The deductible amount for a contribution to a Traditional IRA is up to \$4,000 per person and up to \$5,000 per person age 50 or older. In 2006, workers over 50 can make additional contributions to their SIMPLE IRAs up to \$2,500. If you're self-employed, you can set up a Simple Employee Pension plan and contribute up to \$44,000 before April 16, 2007

Source: Retirement Weekly 11/2006



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