



# Unlocking the *Secrets* of UBIT

A Comprehensive Guide for Equity Trust Self-Directed IRA Investors

Embark on a Journey of Financial Mastery with Unrelated Business Income Tax (UBIT) Welcome, Equity Trust Self-Directed IRA investors! If you're looking to elevate your investment savvy and navigate the world of Unrelated Business Income Tax (UBIT), you've come to the right place. With IRA Power Loans, an affiliate of Equity Trust, we're here to demystify UBIT and show you how a non-recourse loan can transform your investment strategy. For more information, you can reach out to [etc990@trustetc.com](mailto:etc990@trustetc.com). *Please note, while we're here to guide you, we do not offer legal or tax advice.*

**Visit [www.IRAPowerLoans.com](http://www.IRAPowerLoans.com) today and explore how our non-recourse loan solutions can help you navigate UBIT and maximize the returns on your real estate investments.**

# DEMYSTIFYING UBIT: WHAT EVERY INVESTOR NEEDS TO KNOW

UBIT is a tax applied when your IRA takes on debt financing to purchase property. It's calculated using the Trusts & Estates tax rate, and only net income exceeding \$1,000 is subject to UBIT. Interestingly, Individual 401k Plans are exempt from this tax. The amount of income subject to UBIT corresponds to the percentage of the property financed through debt. So, if 50% of your property is financed by a loan, then 50% of the income from that property could be subject to UBIT. However, there's a silver lining - if the loan is fully repaid 12 months (plus one day) before selling the property, the proceeds are exempt from UBIT.

## THE NUTS & BOLTS OF UBIT:

The Nuts and Bolts of UBIT: A Closer Look UBIT kicks in when a tax-exempt entity like an IRA uses debt financing to acquire property. This results in a trust tax on the income generated, known as Unrelated Debt Financed Income (UDFI), as outlined in IRC 514. The portion of profits subject to tax corresponds to the debt-financed percentage of the property. However, you can offset this by deducting depreciation and other operational costs, which can significantly reduce your taxable income. When viewed in light of the potential gains from your investment, the financial impact of UBIT is typically minimal.



## CRUNCHING THE NUMBERS:

A Practical Guide to Calculating UBIT To calculate UBIT, focus on the net taxable income of your investment for the year, considering only the debt-financed portion. It's crucial to remember that only taxable income above \$1,000 needs to be reported.

## EXAMPLE INVESTMENT BREAKDOWN:

Imagine you've invested in a property with a \$100,000 purchase price, utilizing 50% IRA capital and 50% non-recourse debt. Your gross rent is \$24,000, and you have \$12,000 in expenses (including loan payments, taxes, insurance, and maintenance), as well as \$2,000 in depreciation. Here's how the UBIT calculation would break down:

- \$12,000 Unrelated Debt Financed Income (50% of Gross Income)
- \$6,000 Unrelated Debt Financed Expenses (50% of Expenses)
- \$1,000 Depreciation (50% of Depreciation) This results in \$5,000 of Unrelated Debt Financed Income, minus the \$1,000 exemption, leaving you with \$4,000 of Net Income Subject to UBIT. The UBIT owed would be approximately \$589, leaving your IRA with a post-UBIT income of \$11,411.

## SIMPLIFYING UBIT PAYMENTS:

A Step-by-Step Guide When using debt financing, your IRA needs to have a Federal Tax Identification Number (EIN). You'll need to file IRS Form 990-T to report any taxable income generated during the year, adhering to standard business tax deadlines. Remember, filing is mandatory for income over \$1,000. Equity Trust Company offers services to assist with 990-T form preparation and filing. For more information, you can reach out to [etc990@trustetc.com](mailto:etc990@trustetc.com). Please note, while we're here to guide you, we do not offer legal or tax advice.

**The Strategic Benefits of Embracing UBIT:** Paying UBIT can be a wise strategic decision, allowing you to leverage your IRA for greater wealth accumulation, diversified income opportunities, and enhanced financial flexibility. Only a portion of your income is taxable, and you can utilize standard deductions, depreciation, and exemptions to further minimize your tax liability.

Each investment scenario is unique, so we encourage you to use the calculator at <https://irapowerloans.com/calculator/> to gauge your potential returns.

Have questions? We're here to help every step of the way.



# TRANSFORM YOUR INVESTMENT STRATEGY WITH IRA POWER LOANS

Equity Trust Self-Directed IRA Investors, the time to act is now! Visit IRA Power Loans today and explore how our non-recourse loan solutions can help you navigate UBIT and maximize the returns on your real estate investments. With our expertise and tailored loan options, you're on the right path to achieving greater financial freedom and a prosperous retirement. Don't wait – your journey towards enhanced ROI begins here!



**GET AN IRA LOAN  
*WITHOUT THE HASSLE***

Learn more about IRA Power Loans by visiting  
**IRAPowerLoans.com** or call us at: **(833) 510-4189**