

Mentoring at Scale

# The Self-Directed IRA

*The custodian layer, allowable  
investments, & §4975 prohibited  
transactions, and UBIT/UDFI.*

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The Baratelli Institute

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# Self-Directed IRA — the Mechanics, the Traps, and the Prohibited Transactions

A Self-Directed IRA (SDIRA) is an IRA held at a specialist custodian that permits non-traditional investments — real estate, private company stock, private partnership interests, precious metals, and (at some custodians) cryptocurrency. The wrapper is the same Roth or Traditional; the freedom to hold alternative assets is what makes it different. The tradeoff is a stricter set of statutory rules under IRC §4975 that, if violated, disqualify the entire IRA and trigger immediate distribution and tax on the entire balance.

**Snapshot:** 2026-06-30

Custodians

## Who holds the account

Standard brokerage custodians (Fidelity, Vanguard, Schwab, etc.) generally do not permit SDIRA-style holdings. A self-directed IRA is held at a specialist custodian such as Equity Trust Company, IRA Financial Group, Rocket Dollar, Alto IRA, Kingdom Trust, or several dozen others. Custodian selection is a real decision — the custodian’s administrative process, fee structure, permitted asset list, and reporting quality all vary.

Prohibited transactions

## §4975 — the rule that disqualifies the entire IRA

IRC §4975(c)(1) enumerates the prohibited-transaction categories. Any of the following, if engaged in by a “disqualified person” with respect to the IRA, disqualifies the IRA in its entirety:

(A) Sale, exchange, or leasing of property between the IRA and a disqualified person; (B) Lending of money or extension of credit; (C) Furnishing of goods, services, or facilities; (D) Transfer to, or use by or for the benefit of, a disqualified person of the income or assets of the IRA; (E) Act by a fiduciary for personal benefit; (F) Receipt by a disqualified person of any consideration from a party dealing with the IRA in connection with a transaction involving IRA assets.

Disqualified persons

## The people you cannot transact with

Under §4975(e)(2), disqualified persons include the IRA owner, the owner's spouse, ancestors, descendants, and the descendants' spouses; any fiduciary of the IRA; certain service providers; and any entity in which the disqualified persons collectively hold 50% or more of the vote or value. The definitions are strict and interpreted broadly.

**Common traps.** An IRA-held rental property occupied by the owner's parent is a prohibited transaction. An IRA-held private-company loan made to the owner's business is a prohibited transaction. An IRA-owned partnership in which the owner and their siblings collectively hold 50%+ is a disqualified entity and generally cannot transact with the IRA.

UBIT and UDFI

## Two tax traps that even non-prohibited SDIRAs trigger

**UBIT (Unrelated Business Income Tax):** Under §511, an IRA is subject to tax on income from an unrelated trade or business, even inside the wrapper. This most often catches IRAs holding partnership interests in operating businesses. Trust rates apply and are progressive to 37%.

**UDFI (Unrelated Debt-Financed Income):** Under §514, an IRA is taxed on debt-financed income from real estate or securities. An IRA-owned rental property purchased with a nonrecourse mortgage generates UDFI on the leveraged portion of the income. Practitioners often use tax-efficient structures (Solo 401(k)) to avoid UDFI on real-estate plays that Roth IRAs cannot escape.

Cross-references

## Where to read next

The flagship application: The Peter Thiel Roth Strategy.

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