

FRANZEN & FRANZEN, LLP

CERTIFIED PUBLIC ACCOUNTANTS

February 5, 2016 – IRA Investing in a Limited Partnership

If you have an IRA or other retirement account that is invested in one or more limited partnerships, there are special rules to be aware of. This income is not reportable on your Form 1040 because it is inside the IRA. However, the income in these investment vehicles is often considered under the Internal Revenue Code to be “unrelated business income,” or UBI, to a qualified retirement plan.

When funds within a taxpayer’s IRA are invested in a limited partnership, the partnership reports the IRA’s portion of the partnership’s income and expense activity on a Form 1065 and Schedule K-1, as well as that of all other partners. (The term IRA in this situation includes traditional IRAs, SEP-IRAs, SIMPLE IRAs, and Roth IRAs.)

When cumulative UBI in a given tax year exceeds \$1,000 for a particular retirement plan, a Form 990-T is required to be filed, which reports the UBI and calculates the tax. Even if UBI nets to a loss, Form 990-T should be filed, as the loss can be carried back and/or forward, much like a net operating loss.

Tax rates for UBI are the same as those used for trusts (fiduciaries), with the highest bracket being 39.6%. In addition, any resulting tax must be paid directly from IRA assets to avoid the risk of a prohibited transaction, resulting in a disqualification, with the worst-case scenario of the entire balance of your IRA being deemed distributed in one lump sum and therefore fully taxable.

IRA trustees are required to prepare Form 990-T, but in the event they do not fulfill their obligation, it’s important that the form be prepared by someone, as the IRA could potentially be disqualified. To avoid complications, we strongly suggest that you contact your IRA trustee immediately to discuss the Form 990-T requirement and coordinate its preparation and filing, if applicable. Because we are not your IRA trustee, we do not prepare Form 990-T, and the IRA Schedule K-1 is not part of your individual income tax return.

If the trustee of your IRA does not prepare the form as required and provide you with a copy, we advise you to seek legal counsel to protect your IRA investment.

If you have any questions, please give us a call.