



Getting Started:

IMPROVE YOUR ANGEL RETURNS WITH THE TAX EFFICIENCY OF A SELF-DIRECTED IRA

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**Mainstar
Trust**

ACA

ANGEL CAPITAL ASSOCIATION

Mainstar Trust is pleased to provide you with this comprehensive Ebook guide created specifically for Angel Investors of the ACA.

As an Angel investor you work very hard to achieve high returns. Angel investing with an IRA not only improves tax efficiency, but can materially boost your investment return. As an Angel investor, there are three significant advantages to investing with a Self-Directed IRA you should consider:

1) Improved Tax Efficiency Means Higher Angel Returns

Roth IRAs allow for tax free growth while a traditional IRA provides Tax Deferred Growth

2) IRAs Mean Added Tax Flexibility At Time of Exit

High returns may be achieved at the time of an exit without taxation as long as the proceeds from the exit stay within the IRA itself. The investments may only be taxable at the time of distribution based upon the type of IRA used. The tax impact should be compared to 1202 QSBS company investments in a taxable account. We will cover this in more depth within the document.

3) You Need the Right IRA Custodian

At Mainstar Trust, we take the complexity out of IRA investing for alternative assets like Angel investments. We are IRA experts, custody \$10 billion in assets, hold over 8,000 unique investments with IRA accountholders from all 50 states. We are available to assist you with all of your IRA needs, while allowing you to focus on which Angel investments are right for you.

As your trusted self-directed IRA custodian, we look forward to assisting you in achieving your Angel investment objectives. Please contact our Customer Service team at 1-800-521-9897 at any time.

▶ FUNDING AN ANGEL INVESTMENT WITH OUT OF POCKET CASH VS IRA CASH

3X ILLUSTRATION	CASH	TRADITIONAL/ROTH IRA
\$30,000 Angel Investment	\$30,000	\$30,000
3X Exit Pre-Tax	\$90,000	\$90,000
Net After Tax (15% Capital Gains Rate)	\$76,500	\$90,000*
Net After Tax (20% Capital Gains Rate)	\$72,000	\$90,000*

5X ILLUSTRATION	CASH	TRADITIONAL/ROTH IRA
\$30,000 Angel Investment	\$30,000	\$30,000
5X Exit Pre-Tax	\$150,000	\$150,000
Net After Tax (15% Capital Gains Rate)	\$127,500	\$150,000*
Net After Tax (20% Capital Gains Rate)	\$120,000	\$150,000*

10X ILLUSTRATION	CASH	TRADITIONAL/ROTH IRA
\$30,000 Angel Investment	\$30,000	\$30,000
10X Exit Pre-Tax	\$300,000	\$300,000
Net After Tax (15% Capital Gains Rate)	\$255,000	\$300,000*
Net After Tax (20% Capital Gains Rate)	\$240,000	\$300,000*

*Assumes inherent tax benefit in deferral of federal income tax; Angel investors should evaluate the tax alternatives between cash and the types of IRAs based upon their own tax situation (see tax treatment of distributions for IRAs within this document). This cash illustration does not factor in tax impact of 1202 QSBS investments in companies held for 5 years prior to an exit. Federal tax on IRAs is discussed in detail in the table on page 5 and 6, but is deferred until distribution (not exit) on a Traditional IRA and may not be subject to any tax on a Roth IRA, if certain conditions outlined in the table are met. State and local tax are also not considered in the illustration. Contact your tax advisor to determine which of the above alternatives are most appropriate for you.



FEES

Another important consideration is to evaluate how much liquidity may be needed to pay fees related to your self-directed IRA assets. Some types of investments may cause the IRA to incur additional fees beyond the typical IRA administration fees, such as depository service fees, title transfer fees, property management fees, property taxes and insurance, etc. These types of fees, which are intrinsic to the investment itself, must be paid from the IRA. Other types of fees, such as custodial, administrative, and distribution fees, may be paid from the IRA or with funds.

MAINSTAR TRUST FEES

The fees for investing in early stage business private stock or Angel Funds is as follows:

\$25	One time set up fee
\$110	Annual account fee
\$36/year/ Angel Investment	Angel Fund, LLC, or other investment
\$25	One-time transaction fee for buys and sells of the Angel Investments

For a complete list of all fees, please visit
www.mainstartrust.com/forms

▶ TAX BENEFITS BY TYPE OF IRA: TRADITIONAL OR ROTH - OR BOTH

Using a self-directed IRA still allows you to choose when your IRA assets will be taxed based on the type of IRA. Given the potential for higher earnings within a self-directed IRA, you should take care when selecting the type of IRA because it can have a big tax impact. Consulting with your tax advisor in addition to a financial professional when selecting an IRA type can help ensure that you maximize the tax benefits available to you now and in the future.

The two most popular types of self-directed IRAs are a traditional IRA and a Roth IRA. Each type provides different tax benefits, and you may decide one is a better fit for your tax situation or retirement savings strategy. Or, you may decide to fund both types of IRAs to take advantage of both types of tax benefits. Your financial and tax professionals can help you evaluate your options based on your income, current tax bracket, expected future tax bracket, marital status, and retirement income goals.

	TRADITIONAL IRA	ROTH IRA
Eligibility to Contribute	Must have earned income within limits based on marital/tax-filing status	Must have earned income within limits based on marital/tax-filing status
Eligibility to Take a Tax Deduction	Anyone with earned income can contribute, but tax deductibility is based on income limits and participation in an employer plan.	Never deductible. Eligible are single tax filers with modified AGIs of less than \$140,000 (phase-out begins at \$129,000); married couples filing jointly with modified AGIs of less than \$214,000 (phase-out begins at \$204,000).
Annual Contribution Limit	\$6,000 for 2022. \$1,000 catch-up contribution if age 50 or older.	Same
Investment Growth	Tax-deferred investment growth (unless Unrelated Business Taxable Income (UBTI))	Same
Is an Exit a Distribution?	Not necessarily. At the time of an exit, the proceeds paid by the early stage business return to a cash account within the IRA. At that time, the Angel investor has the discretion to invest that cash into other Angel investments or into more traditional investments without a distribution. An Angel could, however, decide to make a distribution at that time.	Same
Tax Impact of Contributions	Tax deduction in contribution year.	No tax deduction for contributions.
Tax Impact of Distributions	Ordinary income taxes owed on withdrawals. Additional 10% early distribution tax if under age 59½. Withdrawals are penalty free beginning at age 59½. Required minimum distributions must begin at age 70½; beneficiaries pay taxes on inherited IRAs.	Earnings can be withdrawn at any time; the distribution becomes tax free once the account has been funded for five years and provided you are age 59½. Contributions can be withdrawn at any time, tax-free and penalty free. No withdrawals required during account holder's lifetime; beneficiaries can stretch distributions over many years.
Other Benefits*	Contributions lower taxpayer's AGI, potentially qualifying you for other tax incentives. Up to \$10,000 penalty-free withdrawals to cover first-time home-buyer expenses, but taxes due on distributions. Qualified education and hardship withdrawals also available.	After five years, up to \$10,000 of earnings can be withdrawn penalty-free to cover first-time home-buyer expenses. Qualified education and hardship withdrawals may be available without penalty before the age limit and five-year waiting period. These may be taxed.

TRADITIONAL IRA**ROTH IRA**

	TRADITIONAL IRA	ROTH IRA
Required Minimum Distributions (RMDs)	Subject to age 70½ required minimum distributions (RMDs). A portion of the IRA may be left in cash or other liquid investments to satisfy the RMD or a re-registration or transfer in kind may be done for the portion of the early stage investment to satisfy the RMD amount. To do so, the early stage businesses must allow a reregistration from an IRA to a taxable account. Most businesses do.	Not subject to age 70½ RMDs
What is the Benefit of a Conversion?	The IRS allows for conversion of a Traditional IRA to create or fund a Roth IRA. A portion or 100% conversion is allowable. Angel investors generally do a conversion because they want to incur tax from their Traditional IRA at current ordinary income rates. Both contributions and earnings grow tax free in a Roth IRA as long as the first distribution occurs 5 years after the initial Roth contribution.	Does not apply; only conversions are allowable from a Traditional to a Roth IRA. The IRS does not allow converting from a Roth to Traditional IRA
Can I Have More Than One IRA?	Yes. Angels can effectively divide their IRAs into different investments and can even have multiple investments with different IRA custodians, providing it is cost effective for the investor. An investor can also have both a Traditional IRA and a Roth IRA.	Same
Other Considerations	<ul style="list-style-type: none"> • Want a tax deduction for retirement contributions • Believe will be in lower tax bracket in retirement • Not eligible to contribute to a Roth IRA • Want to rollover pre-tax distribution from employer plan & continue deferring taxation 	<ul style="list-style-type: none"> • Want to pay tax at today's rates (vs. future unknown rates) • Want access to tax & penalty-free funds before retirement • Have significant time to accumulate tax-free investment earnings • Would like to pass tax-free retirement assets to heirs

*For a complete list of exceptions visit:

<https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-tax-on-early-distributions>

Find more information about IRAs from the IRS at: <https://www.irs.gov/pub/irs-pdf/p590a.pdf> and

<https://www.irs.gov/pub/irs-pdf/p590b.pdf>

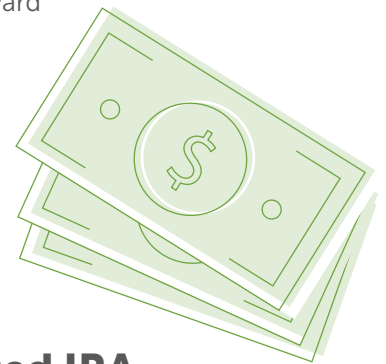
Appendix:

ALL ABOUT SELF-DIRECTED IRAS

▶ FUNDING YOUR SELF-DIRECTED IRA

You have several options for funding your self-directed IRA. If you're eligible to contribute to your traditional or Roth self-directed IRA, you can make annual contributions. You may only contribute cash, and you cannot contribute more than the annual limit. IRAs may also be funded through transfers and rollovers from other IRAs, and rollovers from employer-sponsored retirement plans – even if you're not eligible to make annual contributions. These are typically made in cash, but the investment or physical asset may also be moved "in-kind" (i.e.,

without being liquidated). If an investment is moved in-kind, the transfer or rollover into the IRA must be the same property that was distributed from the other IRA, or, in the case of an employer plan distribution, may also be cash from the sale of that property. There is no dollar limit on transfers and rollovers, and they do not count toward your annual contribution limit each year.

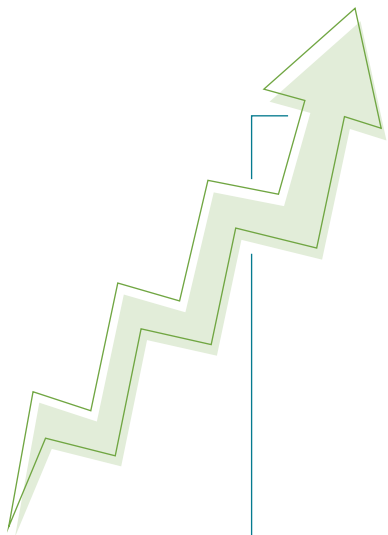


Funding a Traditional (Pre-Tax) Self-Directed IRA

	ELIGIBILITY	TIMING RESTRICTIONS	TAX IMPACT
Transfer from IRA	No requirements	No time limit	None
Distribution & indirect rollover from IRA	Not available to nonspouse beneficiary	Must be completed in 60 days; may only roll over one IRA distribution per 12 months	No tax if completed in 60 days, including withholding
Direct rollover from employer plan	Must be eligible to take distribution from employer plan	No time limit	None
Distribution & indirect rollover from employer plan	Must be eligible to take distribution from plan; Not available to nonspouse beneficiary	Must be completed in 60 days	No tax if completed in 60 days, including withholding

Funding a Roth (After-Tax) Self-Directed IRA

	ELIGIBILITY	TIMING RESTRICTIONS	TAX IMPACT
Pre-tax conversion from traditional IRA	Anyone is eligible to convert regardless of their income or tax filing status. However, not available to nonspouse beneficiary	No time limit	Taxable
Pre-tax conversion from employer plan	Must be eligible to take distribution from plan	No time limit	Taxable
Direct rollover of Designated Roth account from employer plan	Must be eligible to take distribution from plan	No time limit	None
Distribution & indirect rollover of Designated Roth account from employer plan	Must be eligible to take distribution from plan; Not available to nonspouse beneficiary	Must be completed in 60 days	No tax if qualified distribution or nonqualified distribution is rolled over within 60 days, including withholding



BENEFITS OF INVESTING IN AN IRA

- Higher investment growth potential than typical CDs & mutual funds
- Option to select investments not tied to performance of stock market such as an Angel investment
- Ability to hold a broad range of alternative assets
- Ability to choose investments based on their social or environmental impact in addition to potential investment returns
- Available as traditional IRA, Roth IRA, SEP & SIMPLE IRA plan account, & Health Savings Account (HSA)
- Bankruptcy protection up to \$1.28 million for IRA assets & unlimited protection for rollover assets from employer plans
- Ability to pass IRA assets to heirs without going through probate
- Angel Investors may have multiple IRAs; one for Angel investments and another for traditional investments or even real estate.

MANAGING YOUR SELF-DIRECTED IRA - IMPORTANT IRS CONSIDERATIONS

Although alternative investments can offer higher growth potential than some of the more traditional investments, self-directed IRAs must still meet all of the compliance and administrative requirements under the tax code to preserve the IRA's tax advantages. It's important that you consider all aspects of an alternative investment to make sure

it's the right fit for your self-directed IRA and your retirement savings strategy before you invest. Financial professionals can help you evaluate investment opportunities, risks, and costs, while tax or legal advisors can guide you through the tax and prohibited transaction issues.

PROHIBITED TRANSACTIONS

You must take care to avoid certain types of transactions between your IRA and "disqualified persons." These transactions are prohibited under Internal Revenue Code Section 4975 to ensure that investments in a tax-advantaged IRA benefit the IRA, rather than the disqualified person.

Examples of improper uses or prohibited transactions for IRA owners and disqualified persons include:

- Borrowing money from the IRA or making loans to the IRA
- Selling property to the IRA or buying property from the IRA
- Taking a salary from an IRA-funded business
- Using IRA assets for personal use

If you engage in a prohibited transaction, the IRA stops being an IRA as of the first day of the year and is treated as distributing the fair market value of the IRA. This amount is taxable to you (excluding the portion attributable to Roth or after-tax contributions) and may also be subject to the 10% early distribution tax if you are younger than age 59½. If a fiduciary or disqualified person other than you or your beneficiary engages in the prohibited transaction, the IRS may impose an excise tax.

Disqualified Person

You, as the IRA owner, and your

- Beneficiary
 - Spouse
 - Lineal ancestor (e.g., mother, father, grandparent)
 - Lineal descendants (e.g., child, grandchild) & spouses
 - IRA fiduciary – someone who:
 - Exercises discretionary authority or control in managing or administering the IRA or its assets,
- OR
- Provides investment advice to the IRA for a fee



LOANS

You cannot take a loan from your IRA the way you can take a loan from most 401(k) plans. You also cannot pledge your IRA assets as security for a loan. If you pledge a portion of your IRA assets, that portion is treated as distributed

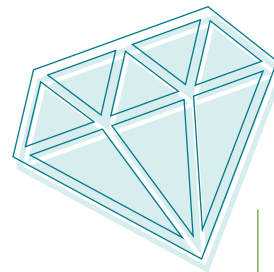
and must be included in your taxable income for the year (excluding the portion attributable to Roth or after-tax contributions). The taxable amount may also be subject to the 10% early distribution tax.

VALUATION

Determining the accurate value of all IRA investments is needed to perform a variety of required administrative functions:

- Report the fair market value of the IRA to the IRA owner and IRS each year
- Determine taxable amount for distributions and conversions
- Determine payment amounts for required distributions

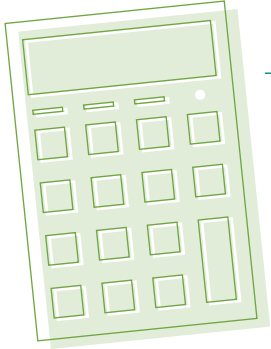
Certain hard-to-value investments can create challenges in obtaining valuations when there is no readily ascertainable value, such as nonpublicly traded stock and partnership interests. IRA owners should explore the level of support their self-directed IRA custodian will provide in obtaining valuations for their alternative investments. Mainstar Trust works directly with the early stage business or fund to receive the mandatory annual valuation for the IRA.



REQUIRED MINIMUM DISTRIBUTIONS (RMDs)

If you are age 70½ or older, you may want to explore the various options for satisfying your required minimum distribution (RMD) each year: maintaining liquidity within your self-directed account, liquidating

investments to make the distribution, taking an in-kind distribution to satisfy your RMD, or taking the RMD from another IRA you own. (The RMD rules do not apply to Roth IRAs while you are alive.)



— UNRELATED BUSINESS TAXABLE INCOME (UTBI)

You may have to pay tax on certain investment earnings within the IRA if the investment generates business income that is not substantially related to the tax-exempt purpose of the IRA, which is saving for retirement. The taxation on this income is not deferred but must be paid as it is earned each year if the

income from a regularly conducted unrelated trade or business is more than \$1,000 for the year. UBTI must be reported annually on IRS Form 990-T, Exempt Organization Business Income Tax Return, and the tax must be paid from the IRA assets.

EXAMPLES OF OTHER ALTERNATIVE INVESTMENTS FOR SELF-DIRECTED IRAS

- Real estate-related products
- Mortgage notes
- Limited liability companies
- Limited partnerships
- Private stocks
- Private placement funds
- Government securities
- Annuities
- Business development companies
- Tax liens
- Corporate bonds
- Real estate investment trusts (REITs)

There are only a few types of investments that you cannot hold in an IRA. Under the federal tax code, an IRA cannot be invested in life insurance contracts or collectibles. If the IRA acquires these types of collectible investments, the IRA stops being an IRA.

▶ CHOOSING YOUR CUSTODIAN

Choosing the right IRA custodian is essential to making sure your self-directed IRA will enable you to both achieve your investment objectives and make certain your IRA meets all the requirements under the tax code. Not all custodians allow all types of alternative investments, and not all custodians are experts at administering alternative assets. To safeguard the investments and tax-exempt status of your self-directed IRA, choose a custodian who has

proven expertise in self-directed IRA administration and compliance. The custodian is responsible for producing the legal documents to establish the IRA and accepting contributions to fund the IRA, including transfer or rollover assets. The custodian acts on behalf of the IRA, at your direction, to take ownership of the IRA investments and provides tax information to both you and the IRS.

▶ SAVING WITH MAINSTAR

Mainstar Trust has focused on servicing self-directed IRA owners since 1978. We handle approximately 100,000 accounts with more than \$10 billion under custody. We specialize in providing retirement and custodial services for alternative IRA assets, as well as the more traditional publicly traded assets. Whether you choose to independently manage your self-directed IRA or rely on the expertise of a financial professional, Mainstar Trust provides the support and account access Angel IRA owners need to manage a

self-directed IRA. Mainstar Trust is the trusted guide to help navigate the world of IRA saving, offering alternative, cost-effective retirement solutions, excellent services, and prompt, personal client contact. We will support you through each step of plan set-up process for your self-directed IRA.



▶ GETTING STARTED

STEP ONE

Verify that the Investment is Already Held on the Mainstar Trust Platform

We will work with you and/or the fund or early stage business to gather key information and regulatory documents about the investment. Once Mainstar has approved the investment to be administratively feasible to hold, we will advise you to move to step 2.

STEP TWO

Open the Account

Complete the Mainstar Trust Self-Directed IRA Application, online or in print, to open a Self-Directed IRA.

STEP THREE

Fund the Account

Complete the Mainstar Trust Transfer/Direct Rollover Request form, online or in print, to transfer or rollover retirement savings. Once we receive your documentation, we will work with your current custodian to move money or assets to Mainstar Trust.

STEP FOUR

Select Your Investments

When you are ready to purchase an investment, complete the Mainstar Trust Purchase Authorization form and instruct Mainstar Trust to purchase the asset with your self-directed IRA assets. You may also be required to complete issuer subscription documents.

▶ ANGEL INVESTORS SHOULD EDUCATE EARLY STAGE BUSINESSES ON BENEFITS OF RAISING CAPITAL WITH IRAS

We know that Angels interact with early stage businesses frequently. Every early stage business is always in various stages of raising capital. But what many entrepreneurs do not understand is that individuals in the United States hold over \$9 trillion in IRAs. IRA assets will continue to grow from additional

rollovers from defined contribution or defined benefit plans and from asset appreciation. IRAs are an excellent source of potential capital for early stage businesses. Angels play a vital role in providing this education to these entrepreneurs.