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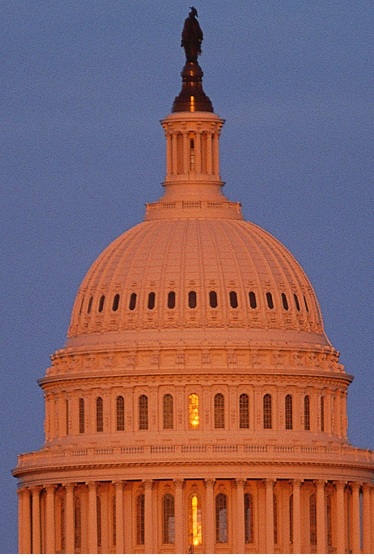

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U.S. Tax Court: IRA's investment in coins, followed by taxpayer taking physical possession of the coins, held a taxable distribution

The U.S. Tax Court today issued an opinion concluding that taxpayers with self-directed individual retirement accounts (IRAs) received taxable distributions on taking physical possession of coins that the IRAs were directed to purchase (and followed by the taxpayers taking physical possession of the coins).

The case is: *McNulty v. Commissioner,* 157 T.C. No. 10 (November 18, 2021). Read the **opinion** [PDF 72 KB]

Summary

The taxpayers (married individuals) established a self-directed IRAs and directed assets held in the IRA to invest in a single-member limited liability company (LLC).

The taxpayer-wife was the manager of the LLC that her IRA invested in, and she directed the LLC to purchase coins and took physical possession of the coins.

The IRS determined that she received taxable distributions equal to the cost of the coins in the year when she received physical custody of them.

The taxpayer-husband directed his IRA to invest in the coins and a condominium through an LLC. He conceded that he received taxable distributions from these transactions but contested section 6662(a) penalties for the failure to report the distributions.

The Tax Court concluded that the wife received taxable distributions from her self-directed IRA equal to the cost of the coins upon her receipt of the coins.

The court also concluded that the taxpayers were liable for section 6662(a) penalties for substantial understatements of income tax attributable to their failure to report taxable distributions from their IRAs.