



Want to Use the Money in Your IRA for Loans or Certain Related Investments? Think Again

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Many individuals have accumulated significant funds in their individual retirement accounts (IRAs), and with interest rates going up and in the current economic climate, they may want to use these funds for loans or other investments. Want to borrow from your IRA? Loan money to, or invest in, your business or your employer from the IRA? Buy a vacation home with money from your IRA? Think again.

Because funds in an IRA are not subject to income tax until distributed, the Internal Revenue Service (IRS) has strict rules related to the use of these funds while they are still in the tax-deferred IRA. Any transaction between the IRA and the IRA owner (such as a loan or pledging the IRA as collateral) is a “prohibited transaction.” Additionally, using the money in an IRA in a way that otherwise benefits the IRA owner could result in a prohibited transaction.

So, while buying real estate through the IRA as an investment may be acceptable, buying a vacation home that the IRA owner plans to use personally would be prohibited. Likewise, loaning money to a company that the IRA holder owns an interest in or is employed by may be prohibited depending on the facts and circumstances. If a prohibited transaction does occur, the consequence is that the entire amount in the IRA becomes immediately subject to income tax by the IRA owner, not just the amount involved in the prohibited transaction.

Before making any loans or investments with the IRA or that could potentially benefit the IRA owner, we recommend you seek the advice of a professional that understands these rules and how they may be applied by the IRS. For more information, contact the author of this article or any member of Frost Brown Todd’s [Tax](#) and [Employee Benefits & ERISA](#) practices. You can also visit our [Tax Law](#)

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