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Entrust Northeast will answer your question: How do I invest my IRA in real estate?

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People have been asking this question with increasing frequency over the last two years. Can you blame them? The precarious nature of the securities market and the lack of ethics in big business have the public looking for more control of their retirement assets. Those who have consulted with their tax accountants have been told either "it's not possible" or "it's possible but too complicated for the individual". Fortunately for all of us, the answer to this question is "Yes, it is possible and yes, you CAN do this yourself". What follows is a step-by-step guide to purchasing a piece of real estate within your IRA. This example deals with a cash deal.

The first thing you must do is open an account with a self-directed administrator. A self-directed administrator will allow you to make any investment allowed by the IRS codes 408 and 401 with regards to IRAs and Qualified Plans. This type of administrator sells no investment products such as stocks or mutual funds nor does the administrator give investment advice. The services provided include record keeping and IRS reporting, quarterly statements, asset servicing such as bill paying and income/interest receiving, the last two at the direction of the client.

You will want to move the funds from your current custodian to the self-directed administrator's custodial bank in order to have them available for a real estate deal. The bottleneck for these types of transactions has always been funds transfer. Forms are available that will allow for the liquidation and transfer of funds, maintaining the tax-deferred status of your account. In many circumstances clients will request a distribution from their account and will then "roll over" these funds to the self-directed administrator within the IRS time limit of 60 days. IRS rules state that this type of distribution may only be done once every 12 months.

While the IRS code on IRAs does not tell you what to invest in, it does specifically ban investments in collectibles and life insurance. Most of the rules revolve around these questions:

1. With whom are you investing?
2. Are you personally providing credit to your IRA?
3. Are you deriving personal benefit now for investments made by your IRA?
4. Are you doing business with close family members who may benefit now from your IRA?
5. Is everything being done "arms length" to ensure that decisions made are in the best interest of the IRA?

Understanding Prohibited Transactions, Self-Dealing and Disqualified Persons is the key to getting it right. A self-directed administrator should be able to help you navigate the rules in order that the transaction is done correctly.

The asset you are purchasing for your plan must be a "new deal", not one already owned by you or a close family member, although brothers and sisters are okay. It must be purchased for investment and it must be properly titled in the name of your IRA. All income and expenses must flow through

the administrator and there is to be no personal use of the property at any time, either by you or a close family member.

The sales contract for the purchase of the property must be titled in the name of your IRA, i.e. Entrust Northeast FBO John Smith, IRA and all documents associated with the sale and title transfer of the property must be signed by the administrator. All utilities, insurance, HOA dues, real estate taxes or contractor contracts must also be in the name of the IRA and signed by the administrator.

From the beginning the key players in your deal must know what is going on. This list includes the real estate broker, the title company or real estate attorney, your insurance agent and, most important, the self-directed administrator. Instructions for all involved parties should be available from the inception of the deal. Questions regarding who will manage the property and ensuring the "arms length" nature of this investment and its income stream, if a rental, should be answered early. Options such as using a property manager, bookkeeper or other non-family member should be explored early.

At some point you will want to reap the benefits of your investment. At 59 ½ you may take distributions from your IRA without penalty. At 70 ½ you are required to take mandatory distributions from a traditional IRA. Any income and appreciation have been building in your account tax deferred if in a traditional IRA and tax free if in a ROTH IRA.

This is only a very basic illustration of how to buy real estate with your IRA. The details of each deal are likely to be different. Consult the self-directed administrator before making an offer on a property to ensure that the paperwork is done correctly from the beginning. Understand the rules, the process and the ongoing management issues. Deals involving a loan are not addressed in this paper and involve other issues. Other questions that come up are shown below.

Can I stay in the property?

No.

Can I use this property for my retirement home and move in at 65?

Yes, providing you distribute the property from your plan prior to doing so. Your accountant can provide details on the tax implications of this.

Can I buy a piece of property and rent it to my business (or son or parents)?

No, this is an example of a prohibited transaction. Your son and parents are examples of who is a disqualified person.

More questions? Contact Entrust Northeast, LLC for self-directed IRA administration and to answer other questions you might have. Visit us at www.entrustnortheast.com for examples of other self-directed investment options such as mortgages, notes, precious metals, private placements and much more. You will also find an events page there that lists our upcoming presentations, workshops and tradeshow.

Jaime Raskulnecz, CPM is the CEO of Entrust Northeast, LLC, a N.J. licensed real estate broker and CEO and principal of Rainbow Property Management, LLC, AMO. Entrust Northeast, LLC is a locally owned and operated office that is part of The Entrust Group, one of the largest and oldest administrators of self-directed retirement plans in the country. Entrust Northeast has become one of the first and only area companies to enable investors to harness their IRA assets to purchase a wide array of nontraditional investments such as real estate, notes, private placements, accounts

receivables, limited partnerships, gold, as well as stocks, bonds, mutual funds, and certificates of deposit. Raskulinecz has been a successful real estate investor herself for more than 20 years. For more information or to schedule a workshop or presentation, contact info@entrustnortheast.com.

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