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COMMENTS FROM THE AUTHOR—IS REAL ESTATE A GOOD INVESTMENT IN AN IRA?

This is a common question for investors. It is a good question because real estate has some unique tax benefits outside the IRA that other assets do not share like deductibility of investment interest and depreciation. These benefits are not all available inside an IRA.

I do believe that all investments should stand on their own merit. Some real estate investments can be perfect for an IRA. The IRA might be your only source of funds. Now you can have a cash deal and an easier purchase.

Many factors need to go into this decision, including purchase price, anticipated cash flow, appreciation in the market, etc... This is true for all investments, not just real estate.

In the current market, purchase prices for real estate are low. If the investor believes that he or she can purchase real estate today at a great price and sell it in a few years at a profit after fix-up and appreciation, this is worth pursuing. Remember with any investment many of the profits are made on the purchase of the asset.

WHY REAL ESTATE IRA?

- It is a tangible asset
- You know where it is located
- You can control the results
- You can leverage it in an IRA
- Cash flow and long term appreciation

FREQUENTLY ASKED QUESTIONS ABOUT REAL ESTATE IRA'S

Can I purchase real estate in an IRA? Yes, real estate is allowed in an IRA for investment purposes but there can be no personal use of the real estate. The Department of Treasury has outlined what cannot be purchased in an IRA. Real estate has never been on the list.

How does it work to purchase Real Estate in my IRA? The first step is to set up a self directed IRA that will allow you to control and direct your administrator to purchase the real estate for the IRA. Second, you will find the property you want to buy and have the contract written in the name of the IRA. The IRA administrator will sign the contract and make the deposit from the IRA. Third, the administrator will work with the title agent to make sure that all documents are put in the name of retirement account (rather than your name personally) at closing.

Can I buy a percentage of a piece of real estate? Yes. Let's assume that you have 50% of the purchase price in your IRA and 50% in

your personal account. Your IRA can buy the asset as tenants in common with yourself. This purchase can be done at any percentage.

How are income and expenses handled for the real estate? The IRA is responsible to pay its percentage of the bills in regards to the real estate. If there is condo maintenance fee, the IRA must pay it. If there is a repair bill, the IRA must pay it. If the IRA only owns a percentage of the asset, the IRA is only responsible for its prorated share. Likewise, any income (rent or sales proceeds) must go back into the self directed IRA account.

Can I buy a vacation or second home with my IRA account? No, you cannot have any personal use of your IRA assets. The assets are held for investment purposes.

Can I perform repairs and remodeling on my IRA investment? As the IRA owner you can do *de minimis* work on your property. Constructing an addition on your IRA property is not allowed, but collecting the rent or negotiating a new tenant is fine. The IRA cannot pay you for any work performed for your IRA.

Can my IRA borrow money to purchase Real Estate? Yes, the IRA can but the rules are tricky and any loan would have to be non-recourse. Also there could be tax consequences of borrowing money with an IRA. Please refer to our Brief on UBIT at www.tfsbriefs.com

Prohibited Transactions with Real Estate IRA's (IRC Section 4975)

A prohibited transaction occurs when you do business with your IRA in certain ways. Below is a list of business you cannot transact:

- You can't sell property to your IRA or buy property from your IRA.
- You can't loan money to your IRA or borrow money from your IRA.
- You can't use the account, or any part of it, as security for a loan.
- You can't receive goods or services from your IRA or provide goods or services to your IRA.
- You aren't allowed to do any of these things directly or indirectly. That means you can't avoid this rule by having your IRA deal with a company you own or with a family member.

There are individuals your Real Estate IRA cannot do business with including any grandparents, parents, kids, spouses and yourself. Also included in that list is any business that you own more 50% of.

Real estate types of assets you can purchase in an IRA

- Land / Farm Land
- Rentable Single or Multi-Family Homes and Condos
- Tenant in Common Interest
- Tax Deeds / Tax Certificates
- Short Sales / Foreclosures
- Notes / Mortgages
- LLCs that invest in real estate
- REITs

It's tangible, it's solid, it's beautiful. It's artistic, from my standpoint, and I just love real estate. — Donald Trump

Dave Owens, CPA, CES

Tax Free Strategies – Opportunities for the Savvy Investor

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Self-Directed Retirement Accounts

A self-directed IRA allows you to invest in both “traditional” investments such as stocks, bonds, and mutual funds, as well as “non-traditional” investments, like real estate, mortgages/deeds of trust, private placements, tax liens, and other private placements and limited partnerships. A self-directed IRA enables you to use your investment knowledge and expertise to manage your own investments. It is a common misconception that you can only hold CD’s, stocks, bonds, and mutual funds in your IRA. This is simply not true. A self-directed IRA quite simply is an IRA account that allows you to directly manage and choose which investments to purchase.

There are so many options to consider with a self-directed IRA. Listed below are the most popular investments

- Real Estates
 - ⇒Raw land
 - ⇒Rentals (Single Family/Duplex/Triplex)
 - ⇒Foreclosures
 - ⇒Short Sales
 - ⇒Condominiums/Commercial
- Notes/Mortgages
- Private Stocks
- Gold and other precious metals
- Private LLCs

- Structured Settlements
- Tax Liens/Certificates
- CDs/Stocks & Bonds
- Commodities/Futures/Forex
- & More

Why invest with your IRA dollars—The main benefit of IRA investing vs after-tax investing is the opportunity for tax free gains inside your account. By not having to pay the taxes on a sale of assets, you can keep more money for yourself to grow your nest egg and build wealth

How to set up a Self-Directed IRA?

The first step to get started in self-direction is finding the right IRA Administrator. Entrust is one of the top IRA Administrators in the United States. Entrust focuses on helping IRA investors take control and purchase the assets they want. Entrust can be reached on the web at www.1031-ira.com.

Once you have identified your administrator, you will need to open an account and transfer funds from an existing IRA or make a contribution. Now that the account is set up, you will direct your administrator on what type of non-traditional asset you would like to purchase. ***Self Direction is easy, so why not take control today?***

Have a great day!

REAL ESTATE IRAS

If you've got an urge to sock away something in your IRA besides stocks, bonds and mutual funds, you may want to consider real estate. Raw land, houses, condos, commercial properties and even mortgage notes -- you can use an IRA to broaden your portfolio. A real estate IRA can be a great investment and offer a tremendous opportunity to investors who want to control and grow their IRA. Now may be the time to take advantage of the record low prices in the real estate market and use your IRA to get started investing today.

FREE eBook ON REAL ESTATE IRAS

If you are looking to get started in Real Estate IRAs, look no further than the eBook *Understanding Real Estate IRAs* written by Dave Owens CPA. The free download of this book can be found at www.daveowens.com. The book is a hands-on guide to the ins and out of real estate IRA investing.

1031 EXCHANGES—WHAT IS A "QUALIFIED INTERMEDIARY?"

In a 1031 exchange, an investor must do more than sell real estate and reinvest the proceeds. To qualify for the favorable tax treatment, the investor can't touch the proceeds from the sale. This is where a "qualified intermediary" or man-in-the-middle comes in. The investor hires an intermediary to handle the money in the 1031 exchange account until the investor is ready to close on a new property, which consummates the 1031 exchange. The QI's role also includes facilitating the exchange using an exchange agreement, which means the QI becomes a party to the transaction. Based on the above description of the "qualified intermediary's" role, you can appreciate why it is important to choose an intermediary carefully. Choose an experienced Qualified Intermediary.

- How many years has your Qualified Intermediary been in business?
- How many exchanges have they performed
- Is the Qualified Intermediary Insured?
- Where are the proceeds kept during the holding period?

1031 Tax Free Strategies has been performing 1031 Exchanges since 1997. Trust an experienced Qualified Intermediary to help ensure your exchange is handled with the highest degree of professionalism. For more info go to www.1031company.com or call 239-333-1031