Invest in Real Estate

Within Your IRA

Self-directed IRAs are a little known tool which allows you to invest in real estate (among other things) and get all of the tax benefits that an IRA gives you. There are several qualified retirement plans that you can use to invest in real estate, including a self-directed traditional IRA and a self-directed Roth IRA. This allows you to tax defer gains on sales of properties, as well as the rental income from these properties.

Self-directed IRAs can be a tremendous retirement planning tool for the serious real estate investor, but we must also understand that the IRS giveth, and the IRS taketh away. So self-directed IRAs are loaded with rules that you must make sure to adhere to. Understand that self-directed IRAs are no different than any other IRA when it comes to withdrawals. Withdrawals before the age of 59 1⁄2 are typically subject to penalties and potentially taxes. When you own a property outside of a self-directed IRA, you get some immediate tax benefits such as being able to write off depreciation on the property. However, you do not get to write off depreciation on properties held within the self-directed IRA.

Another caveat is that all money spent on the property must come from within the self-directed IRA and any money gained from the properties must stay within the self-directed IRA. In other words, not only should you ideally be prepared to pay cash for the property (using money from inside the IRA) but any repairs, upgrades, taxes, or any other money spent on the property must come from the self-directed IRA, as well. You are not even allowed to repair the property yourself, you must pay someone to do the repairs for you. And the person doing the repairs can not be what is considered a "disqualified person". It must also be professionally managed by a non-disqualified person or company.

The properties owned by the self-directed IRA can not directly benefit anyone who is considered a disqualified person. You, your spouse, extended family members, and potentially even business partners are all considered disqualified persons (siblings, oddly enough, are not disqualified persons). No disqualified person can live in the properties, buy or sell properties to or from the IRA, or directly benefit in any way from properties owned by the self-directed IRA. If any rules are broken, the IRA will lose its tax deferred status and the full value of the IRA will be considered withdrawn and you will be responsible for all taxes that year. The IRS grim reaper will come knocking. Any pre-tax accounts, such as a traditional IRA, will have required minimum distributions (RMDs) once you reach age 70 1⁄2. So you must make sure to have enough liquid assets in the IRA to be able to pay the RMDs when the time comes, or be forced to potentially liquid properties within the IRA in order to satisfy RMDs. Make sure to work with a tax professional in order to have a plan in place on how to effectively satisfy RMDs when the time comes.

This article is intended to give you the basics of how a self-directed IRA works when investing in real estate and *some* of the rules. Self-directed IRAs are an incredible retirement planning tool for the serious real estate investor who wants to use real estate to help fund their retirement. Just make sure to work with a professional who can help make sure you are following the rules and guidelines.

Atlas Financial Strategies

Andrew Martin

Founder and President

Phone: 850.542.4823

AtlasFinancialStrategies.com

Office:

125 W. Romana St. Suite 720

Pensacola, FL 32502