



REAL ESTATE IRA

GUIDE

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A SELF-DIRECTED IRA PROVIDES THE ULTIMATE INVESTMENT

FREEDOM

INVEST IN WHAT YOU WANT, WHEN YOU WANT!



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REAL ESTATE IRA GUIDE

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Introduction

A self-directed IRA is unique in that it allows the account holder to purchase any type of real estate, including residential, commercial, raw land, agricultural, and more. The IRA can buy the property outright, meaning the IRA is the title holder. If the IRA does not have the full purchase price, the IRA can partner with a person, company/entity, or another IRA.

Real estate in a self-directed IRA provides the opportunity to generate income from rent, appreciation, fixing and flipping, and so much more.

It has been possible to participate in real estate as an asset since the inception of self-directed IRAs in 1974. What has not always been easy is finding an IRA provider who was willing to service this type of investment. The IRS requires an authorized provider for all IRAs. But not all providers offer real estate as an investment vehicle, but Accuplan Benefits Services does.

Types of Self-Directed IRAs

Eligible Tax-deferred/Tax-free Plans

1. Traditional IRA
2. Roth IRA
3. SEP IRA
4. SIMPLE IRA
5. Solo 401K Plan

Benefits of Having Real Estate in an IRA

- Real Estate is a tangible asset and one that you understand.
- Investment properties can potentially yield rental return as well as market appreciation.
- You have strategic control over the properties that your retirement account owns.
- You can buy, sell, and exchange properties without tax consequence.





Leveraging Real Estate in an IRA

An IRA may secure a loan to purchase property. According to the IRS, it must be a non-recourse loan (the lender is acknowledging, in the case of default, their only avenue for remuneration is the property itself). Not all lending institutions and banks offer these types of loans, but several do exist. Also, a non-recourse loan can come from a private lender.

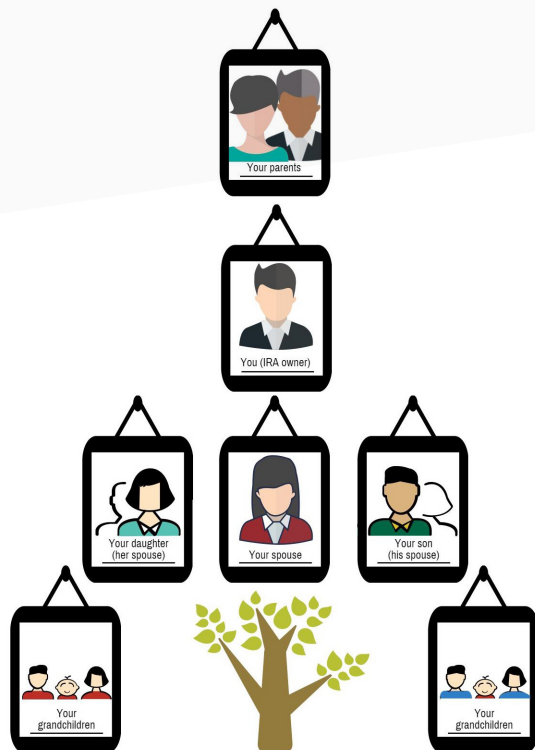
When an IRA purchases real estate using a non-recourse loan, the debt financed portion of the property's profits may be subject to Unrelated Business Income Tax (UBIT). Similarly, if an IRA-owned property is sold while a percentage of ownership is still debt financed, the profits derived from the debt financed percentage may be subject to UBIT. UBIT is calculated on a form 990-T and is paid by the IRA. It does not affect the IRA holder's personal taxes.



Disqualified Persons and Prohibited Transactions

Self-directed IRAs have a list of people who are disqualified from having certain interactions with that retirement account.

Important note: *Any entity that is owned or controlled by a Disqualified Person is also disqualified.*



Your Disqualified Persons Family Tree

Non-Disqualified Persons include: Siblings, aunts, uncles, cousins, father-in-law, mother-in-law, etc.

- Neither the IRA holder nor any other Disqualified Person to that IRA may live in or use the property.
- Disqualified Persons cannot work on the property, for free or for pay. "Sweat equity" is not allowed. Any remodeling, repair, improvement, and even maintenance must be performed by a non-disqualified person or entity.
- Your IRA cannot purchase a property from you or any Disqualified Person, nor can your IRA sell a property to a disqualified person.
- Disqualified Persons are not allowed to be paid by the IRA.

Property Management of Rental Real Estate in an IRA

After your IRA has successfully purchased real estate, the IRA holder is the decision maker for that property. That may include the hiring of a property manager (or other non-disqualified person or entity) to handle the day-to-day cash flow and operations.

Income generated by the IRA-owned real estate must go back into the IRA. Rent checks are made out to the IRA (or the management company if there is one), not the IRA holder. As the IRA holder, you have the ability to choose the vendors for your IRA-owned property. Maintenance and improvements cannot be performed by the IRA holder or any disqualified person.

You may not pay for any property related expenses with your personal funds on behalf of the IRA. All expenses are paid from the IRA.

REAL ESTATE IRAS ARE NOT LIMITED TO JUST RENTALS

- Commercial Property
- Farmland
- REITs
- Undeveloped Land
- Foreclosures
- And much more..







Frequently Asked Questions on Self-Directed **REAL ESTATE** IRAs

Q. *Can I buy real estate in my Retirement Plan?*

A. Yes! The IRS has had this question so many times they answer it directly on their website (www.irs.gov). In their retirement Q&A section it says "IRA law does not prohibit investing in real estate but trustees are not required to offer real estate as an option".

Q. *Why haven't I heard about real estate investment in IRAs before?*

A. Retirement investing has been dominated by the securities industry since 1974 but real estate has always been available to IRAs. The opportunity to invest IRA funds directly in real estate is an option that many people are just learning about.

Q. *What about borrowing? Can my IRA get a mortgage?*

A. Yes, the IRS requires that the loan be a non-recourse loan. The lender can be a bank or a private lender. IRA non-recourse loans tend to require a higher down payment than those for personally guaranteed loans.

Q. *Where do I find an investment property?*

A. It's up to you and your real estate agent to find the property. There are no limitations or restrictions other than the property cannot be something you or any disqualified person currently own.

Q. *How long must my IRA own a property before selling it?*

A. There are no time restrictions or limitations on buying or selling a property.

Q. *What are the restrictions for the purchase?*

A. The primary requirement is that the purchase be for investment purposes only. The IRA owner, certain family members, and plan fiduciaries cannot use the property while the IRA owns it. Your IRA is not allowed to buy property you already own personally.

Q. *What can I invest my IRA and qualified plans in?*

A. There are two broad asset categories that are not allowed: life insurance and collectables. Beyond that, the IRS does not approve any specific investments. Usually limitations on asset types are a result of the IRA provider's business model, not IRS regulations.

Q. *What are alternative investments?*

A. Alternative investments are assets, such as real estate, that are not publicly traded securities. Almost anything you can invest in outside of your IRA can be purchased inside your IRA.

Q. *Do I have to pay capital gains taxes if I sell the property?*

A. Because the property is owned within a tax deferred (Traditional IRA) or tax free (Roth IRA) plan, no capital gains taxes need to be paid so long as there is no outstanding debt leverage for 12 months prior to the sale. If there is outstanding debt leverage, UBIT may apply to the percentage of that leverage.

Q. *Can I take property as a distribution and then live in it?*

A. ++-Yes, after you reach 59.5 years of age you may choose to take the property as a distribution from your IRA. Once the property is 100% distributed, it is in your possession and you are free to use the property as you wish.

Q. *What exactly is UBIT?*

A. Unrelated Business Income Tax applies to debt financed property in IRAs and also applies to operating income received from companies owned by IRAs and qualified plans. Typically the debt financed income is taxable under UBIT rules for the percentage of property that is debt financed.





SDIRA REAL ESTATE Guide

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