

Financial, Legal & Tax Advisory

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Self-Directed IRA For Real Estate

Planning for retirement is a long, and sometimes tricky process. You have many different options at your disposal, depending on your employment type and your goals. For those who wish to avoid the volatile stock market and have greater diversification with their investments, such as real estate, a self-directed IRA (SDI) may be for you. Self-directed IRAs are still required by the IRS to use an IRA custodian to handle the transactions and maintain responsibility for record-keeping and reporting requirements.

However, SDIs are independent of any brokerage, bank, or investment company that would make decisions for you. As it states in the name (self-directed), you can make decisions on what the SDI invests in. To invest in real estate with a SDI, you will need to find the property that you wish to purchase through the IRA. Once the property is identified, the IRA custodian makes the transaction on your behalf. The real estate is then owned by the IRA, with all contracts in the IRAs name and any income generated from the investment goes back into the IRA.

As your IRA does not pay any taxes, you are unable to take advantage of the deductions that come with owning real estate. On the bright side, none of the maintenance or any other associated costs will come out of your pocket. It is important to keep track of your IRA balance to ensure that you do not run low on funds to pay for costs associated with the property. Remember, you cannot pay for anything related to the property out of your pocket, and the IRA contributions are limited. To properly have an SDI for real estate, the property must purely be an investment. You cannot use it as a vacation home, second home, office, or have any association with a disqualified person.

Along with this, the property cannot be purchased from a disqualified person as this is called a "self-dealing" transaction and considered a prohibited transaction. A disqualified person includes:

- You
- Your Spouse
- Your parents, grandparents, and great-grandparents
- Your children and their spouse, grandchildren, and great-grandchildren
- Service providers of your IRA
- Any entity that owns more than 50% of the property.

It is important to note that you cannot have a hand in the maintenance of the property. If something needs fixed or repaired on the property, you will need to hire a contractor or a professional (who is not a disqualified person) to make the repair. The cost of this would need to be paid by the IRA. If you were to be a self-proclaimed "handy man" and fix the property yourself, that would be considered an untaxable contribution to the IRA. What happens when/if you decide to sell the property held in your SDI?

You would work out sales price, just like any other real estate deal. Once the terms and purchase price are set, you would have your custodian sell the property on behalf of the SDI and all proceeds would go back into your IRA, either tax-deferred or tax-free, dependent upon the makeup of your IRA. At The Center for Financial, Legal & Tax Planning, Inc., (The Center) we are very knowledgeable in the taxation and requirements of Self-Directed IRAs (we are not a custodian to handle the SDI transactions). If you have any questions regarding SDIs and/or the purchase or sale of real estate, please feel free to reach out at our website, www.taxplanning.com or by phone at (618) 997-3436.

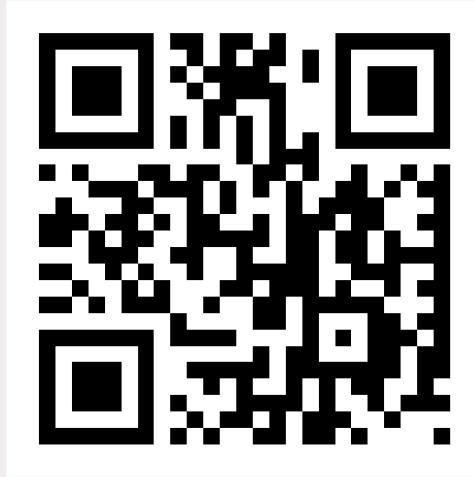
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