

Your Guide to IRA-Funded Real Estate Purchases



Like many Americans, you may have an IRA or 401(k) rollover account in order to make your retirement years more comfortable. And, as you've already demonstrated, you also have a desire to purchase property that you could use as a financial alternative.

Purchasing real estate with your IRA is a unique way you can achieve these two goals. And, when you consider the state of today's economy, an IRA-funded real estate purchase can be a smart way to improve your financial security at the same time.

This information is provided by Alan N. Potts, ChFC, and is for informational and educational purposes only. It is not intended to provide income tax, IRA, 401(k) rollover or investment advice. Readers are advised to discuss this with their legal and/or tax advisor in order to gain more knowledge on this topic.

Use this little-known method to invest
in your next property.



10 Most Frequently Asked Questions

about purchasing real estate with your IRA funds

Q. Who can benefit from a real estate IRA?

A. Anyone who has savings in a qualified IRA — or in a 401(k) or pension plan that can be rolled over into an IRA — can arrange for that money to be used for the purchase of real estate. However, it is recommended that anyone considering using IRA funds for a real estate purchase, get the facts before taking action.

Q. Can any kind of an IRA or pension plan be used to create a real estate IRA?

A. Traditional IRAs, Roth IRAs, and SEP-IRAs can all be converted into real estate IRAs. Money in a 401(k) or employer sponsored pension plan can also be rolled over to create a real estate IRA, as long as the plan is with a former employer. If you are still an employee of the company that initiated the plan, you must be age 55 or older and fully vested before the funds can be rolled over.

Q. What are the advantages of using an IRA to purchase real estate?

A. Purchasing real estate with an IRA lets you maximize the value of your money. Over the long term, real estate that provides growth and income can provide more stable returns than the stocks and bonds usually held in the typical IRA, providing increased asset diversification for your portfolio.

Q. Can't any bank or brokerage company help to set up a real estate IRA?

A. No. Most banks and brokerage firms will only allow you to hold stocks, bonds, mutual funds, CDs, and similar financial instruments in an IRA account. You'll need to find a custodian that will allow real estate holdings and who understands the proper way to structure such an account in order to fully comply with the IRS code.

Q. Why is it so important to have professional advice when setting up a real estate IRA?

A. Setting up a real estate IRA is not something you can do on your own. While the IRS allows this type of asset conversion, IRA regulations are more complex than when you use non-IRA assets to purchase real estate. A professional financial advisor will help you:

- Decide if a real estate IRA makes sense for you, based on your personal financial situation.
- Choose which of the two methods of ownership is right for the way you plan to use the property.
- Navigate the paperwork and satisfy all IRS requirements.
- Find the proper custodian, who will have the IRA compliance responsibility for your new real estate IRA.

In short, you *MUST* get professional advice *BEFORE* making any changes.

Q. What are the two methods of real estate ownership available when using IRA funds, and what are their basic differences?

A. **The two methods of ownership are “Self-Directed/Inside” and “Self-Determined/Outside”™.**

- The “Self-Directed/Inside” method, real estate you want to purchase is titled in the name of the IRA, not in your name. This method is used primarily for acquiring investment property, because the real estate cannot be used or occupied by you or any family members – not even for short vacations.

- With the “Self-Determined/Outside”™ method, real estate you want to purchase is titled in your name. This method is the only one that can be used for purchasing your personal residence and recreational property if you and your family plan to use it for vacations or as a second home.

Q. Will there still be taxes on withdrawals and early withdrawal penalties if IRA funds are used to buy property?

A. That depends on the individual taxpayer and the method used. IRS regulations allow IRA’s to purchase real estate. With both methods, there are compliance issues that must be met in order to minimize or avoid income taxes or penalties.

Q. What type of property can be purchased with IRA funds?

A. You can use Real Estate IRAs to purchase almost any type of real estate, including your personal residence, second home or investment property. The main thing to remember is that, if you want to use and enjoy the property yourself or with family and friends, it has to be purchased using the “Self-Determined/Outside”™ method.

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More questions about using your real estate funded IRA?

Call Alan Potts at 800-525-1893

Q. What steps can be taken to avoid potential risks and maximize the rewards of using IRA funds for a real estate transaction?

A. As with the purchase of any real estate – especially property you want to use as a personal residence or second home – you should consider the desirability of the location. To avoid any IRS penalties, you should also make sure that the advisors you consult and the custodian you select are experienced in the structuring and management of real estate IRAs.

Q. Why isn't this method of purchasing real estate better known?

A. Although the regulations have allowed self-directed IRAs for years, not every financial advisor or institution is interested in getting involved in the process necessary to set them up. So they continue to recommend — and earn commission on — the same traditional financial instruments such as the stocks, bonds, and mutual funds that fill most IRAs.

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