

Women's Wall Street

Getting Real (Estate) with Your IRA

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Maybe it's because you took a hit in 2000 with the bursting of the tech bubble and the stock market still gives you the jitters, or because you realize that the best investment over the past five years has been real estate and you don't have cash on hand to invest. Whatever the reason, it may be time for you to start looking into investing your IRA (Individual Retirement Account) in real estate and other non-traditional IRA investments.

"But," you say, "what about the penalties for withdrawing money from my IRA?" Keep in mind that while you can't just run out and withdraw money from your IRA, there are specialists in "self-directed" IRAs that can advise you. If you're interested in this investment strategy, you should seek out a specialist in self-directed IRAs, because many conventional financial planners -- who often operate on commissions from stocks and bonds -- do not offer self-directed IRA advice. However a growing number of investors are learning that they *can* invest in real estate and other non-traditional assets with their IRAs.

Purchasing investment real estate with an IRA provides individuals with a number of favorable tax benefits from the appreciation and cash flow of the property. In the case of a Roth IRA, the investors don't have concerns about taxation because the Roth IRA is funded with after-tax money, is not taxed while growing, and is tax-free upon distribution (unlike with a traditional IRA, which is funded with pre-tax money and is taxed at the time of distribution). In addition, a Roth IRA has no minimum distribution, so it is up to the investor when (after 59½ years of age) and how much he or she takes as a distribution. The Roth IRA -- and its assets -- may also be passed on to heirs without taxation.

Also, unlike "1031 exchanges," there are no specific investment timelines or requirements to purchase "like kind" investments when buying real estate with an IRA. Finally, when the property is sold, the IRA prevents any capital gain exposure, since taxation of an IRA does not occur until distribution.

But, and this is a big but, investing in real estate with a Roth or other type of IRA is not something that investors should undertake alone because of the strict rules the IRS has established. Investors interested in this option need to find an advisor who specializes in self-directed IRAs to guide them through the process, much like a traditional financial advisor would for stock and mutual fund investments. Here are a few key things to look for in choosing the right self-directed IRA advisor:

- **Extensive Knowledge of Self-Directed Investments.** Investors should make sure that the individual has the expertise to implement advanced methodologies and a strong background to provide solid advice -- in other words, know what he or she is doing. Which means that the advisor must supply support and education. He or she should take the time to put all the pieces of the self-directed IRA puzzle together, enabling the investor to see the big picture and make the most educated investment decisions.
- **Ability to Offer Advice.** This may sound like a no-brainer; however, it is impermissible for an IRA custodian (versus a self-directed IRA advisor or other financial "advisor") to offer advice. Be aware that custodians must maintain a neutral position and can therefore only convey the IRS regulations and *their* firm's investment policies; they cannot offer advice on transactions. This means that the investment firm who holds your IRA investments, like Fidelity or Vanguard, is not in the position to be able to advise you on self-directed IRAs.
- **Checkbook Control.** Investors should look for professionals with the background to leverage IRA LLCs. An IRA LLC is not a regular LLC -- it is a "compliant investment vehicle to the IRS code," one that provides clients the ability to write checks against the self-directed IRA funds so they can act quickly. In addition to giving the investor more freedom in making transactions and enabling her to act quickly in a competitive real estate market, the IRA LLC also protects the assets and the individual's IRA, and offers: checkbook control, investment decisions made solely by the IRA holder, litigation protection for the retirement account, and a flat-fee structure for custodial costs.
- **Your Control Comfort Level.** Many custodial firms set forth guidelines on how transactions can be set up, above and beyond what is legally permissible, based on how they prefer to work. Others are more flexible, giving investors the tools they need in advance and offering them the ability to structure deals without micro-management.
- **Protection.** Investors should look for a firm with the knowledge to protect them from creditors and litigation, through increased overall-

- asset protection with an IRA LLC. For their own peace of mind, investors should look for an advisor knowledgeable in this process.
- **Staffed Tax Attorneys.** Investing in real estate and other non-traditional assets with an IRA is greatly simplified by having the right individuals on hand, including having attorneys on staff to provide accurate information and flexible tools to satisfy individual investor objectives.
 - **The Bottom Line.** Find out what the fees are going to be up front. Custodial firms and advisors may charge varying rates and fees for their services.

With the many advantages that non-traditional IRA investments enable -- greater control over investment options, tax favorable income and, perhaps most importantly, the potential to count on higher returns with less risk -- they can be a highly valuable vehicle for investors of all levels. Working with an advisor that can meet their needs, investors can put this expertise to work for them in intelligently looking to real estate as an alternative investment for retirement. For more information on whether or not a self-directed IRA is for you, you might want to visit www.trustlynk.com or www.sunwesttrust.com for feedback on self-directed IRAs from custodians that will allow the use of the IRA LLC.

Daniel Cordoba, Certified Estate Advisor, is a principal of Austin-based [Asset Exchange Strategies, LLC](#), which offers complete support and advice for non-traditional investments. They have helped clients locally and nationally to invest in real estate, horses, natural gas technologies, currency exchange, ATM machines, golf courses, motels and numerous others, with IRAs. Client IRA portfolios range from \$25,000 to \$15,000,000.