

Entrepreneurial and educated real estate investors have learned that they may be able to use IRA funds for their real estate investments.

Structuring the deal will be determined by the overall investment objectives and time frames, risk tolerance, liquidity requirements, available IRA funds, the type of real estate to be acquired and the frequency of investing activity (fix and flip).

For decades, IRA Services Trust Company has been providing custody and administrative services to real estate investors wishing to further diversify their retirement portfolios with the additional of real estate and other alternative investments.



What Investors Need to Know

Using IRA funds for real estate investing gives investors the ability to invest in what they know and grow retirement savings on either a tax-deferred or tax free basis. No capital gains is paid when an IRA owned property is sold; the pro-ceeds are deposited to the IRA.

Direct Investment

When adequate IRA funds are available, the IRA may directly purchase the real estate. There are rules, however, that must always be followed in order to protect the tax advantages of the IRA and its assets.

- ✓ The property must be for investment purposes only.
- ✓ The IRA account owner (or any other disqualified person) cannot realize any personal benefit from the IRA-owned real estate.
- ✓ All monies required for the purchase must come from IRA funds. All income and expenses must flow through the custodian.
- ✓ The offer to purchase and deed must be in the name of the custodian for the benefit of the IRA account holder.

Pooling Funds for the Real Estate Deal: Tenants in Common Purchase

An IRA can also invest alongside other IRA or non-IRA real estate investors as a tenant in common. In this scenario, the IRA's ownership percentage must be based on the amount invested. Let's say an IRA invests \$25,000 in a \$100,000 deal. The deed to the property would indicate that the IRA has a 25% undivided tenant in common interest. Going forward, income and expenses would be pro-rated to the IRA at 25% with income and expenses flowing through the custodian.

Single Member LLC, IRA LLC, Checkbook Control LLC

Some self-directed investors choose to set up a single-member LLC, frequently referred to as a Real Estate LLC, IRA LLC or Checkbook Control LLC. This type of IRA investment structure allows the IRA account owner to respond quickly to investment opportunities and efficiently maintain rental properties.

There are facilitators who specialize in creating this type of investment structure with associated costs associated for setting up and maintaining a Single Member LLC.

Doing the math first will help the IRA investor determine if establishing a single member LLC is a cost effective strategy.



Leveraging an IRA Real Estate Investment

It is possible for the IRA investor to leverage an IRA funded real estate investment with a non-recourse loan. In this scenario, the IRA obtains the mortgage, usually for a higher down payment and interest rate slightly above conventional rates. The only recourse the lender has if the IRA defaults is that named property. A word of caution, an IRA leveraged real estate investment will trigger Unrelated Business Income Tax (UBIT) on the Unrelated Debt Financed Income. Speak with your tax advisor to determine if this approach makes financial sense.

About IRA Services Trust Company

IRA Services has nearly 40 years of experience offering unmatched custodial and administrative services in the self-directed IRA industry. We provide experience and superior service for fees much lower than industry average. IRA Services Trust Company is a non-depository trust company chartered by the State of South Dakota and regulated by the South Dakota Division of Banking.

**For more information visit or to open an account and start investing, please visit:
www.iraservices.com**



Our **Client Services Representatives** are available to assist you, Monday through Friday, 7 a.m. to 5 p.m. PST. You may call (800) 248-8447, or email info@iraservices.com

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