The Entrust Group

5 STEPS to Investing in REAL ESTATE with a Self-Directed IRA

WHAT'S IN YOUR IRA?

If your IRA custodian is a big bank or a brokerage house, chances are your investments range from stocks and bonds to mutual funds. Your decisions may be limited to how much of each of those asset classes you own.

When you have a self-directed IRA, your investment universe expands to include actual real estate, not just REITs (Real Estate Investment Trusts). In fact, real estate is the most popular investment in self-directed IRAs. That makes sense when investment experts have timelessly stated that real estate:

- Offers diversification, an important factor in any investment portfolio according to financial professionals
- Is a time-tested hedge against inflation
- Is a familiar asset for people who have owned homes or other property

This report explains the types of real estate an IRA can invest in and the IRS rules that are related to these types of investments. Being familiar with the rules will help you avoid jeopardizing the qualified status of the retirement plan. Lastly, the report walks you step by step through the process of investing in real estate using your self-directed IRA with The Entrust Group.

WHAT YOUR IRA CAN OWN

You can own real estate in a Traditional or a Roth IRA. In both cases, the assets in your IRA grow tax-free over time. The big difference is once a set of requirements are satisfied in a Roth IRA, the earnings are distributed tax-free.

Your self-directed IRA can own:

- Residential real estate (single or multi-family properties, condos, mobile homes)
- Commercial real estate (shops, office buildings, gas stations, and more)
- Vacant land; leveraged or unleveraged

If you don't want to own actual real property, you can still diversify your retirement savings with:

- Trust deeds
- Mortgage notes
- Real estate options

THE ASSETS IN YOUR IRA

GROW TAX-FREE!

WHAT YOUR IRA CANNOT DO

The IRS sets rules that govern all IRA investments. Many of the rules governing real estate in an IRA relate to the kind of transactions you may not make and the people you may not do business with. Breaking these rules could result in the asset being distributed immediately, triggering taxes and penalties.

Prohibited transactions: A self-directed IRA cannot own any property that is used for the personal benefit of the account holder or any disqualified person. For example, you cannot live in a house owned by your IRA.

Disqualified persons: These are people who cannot benefit from the property owned by the self-directed IRA. This includes the account holder, their parents, grandparents, spouse, children, and grandchildren and their spouses. These are called "lineal ascendants and descendants." For example, you cannot rent an auto repair shop owned by your IRA to your child.

Self-Dealing: If you own a business, that business cannot benefit from your self-directed IRA real estate investment. For example, if you own a pool-cleaning service, you cannot hire your own business to maintain the pool at an apartment building owned by your IRA.

In real estate investments, prohibited transactions also include:

- The account holder acting as property manager. All rents must be paid directly to the IRA. Likewise, the money used to pay the property manager must come from the IRA.
- The account holder cannot do any repair or maintenance work on the property. Neither can any other disqualified person, such as a child. This kind of work must be done by a third-party and services paid for by the IRA.
- All property taxes, insurance and mortgage payments also must be made by the IRA.

THE IRS SETS RULES THAT GOVERN ALL IRA INVESTMENTS.

THE FIVE STEPS TO INVESTING IN REAL ESTATE WITH YOUR SELF-DIRECTED IRA

1. Open a Self-Directed IRA

The Entrust Group has developed forms and procedures that make it easy to open a self-directed IRA. And while our website provides a complete overview of what you'll need to open an account, it's our staff who are credentialed as Certified IRA Services Professionals, (CISP) who really make the difference. Our clients are more than account numbers in a database. Each client works with a dedicated representative at one of the offices in our nationwide network. Your calls and emails will be answered by a familiar voice, someone who knows you, your account, and your retirement goals.

2. Decide on How You Will Fund Your IRA and Your Real Estate Investment

You can fund your self-directed IRA in three ways:

- **Transfer funds** from an IRA you have with another custodian. Transfers do not prompt reporting, taxes, or penalties because they are not considered distributions. Transfers only occur between like plans.

- **Rollover funds** from another IRA custodian. If the rollover is from a previous employer's 401(k), 403(b) or governmental 457(b), that is considered a direct rollover. Unlike transfers, the rollover transaction is a reportable event given that the initial transaction is a distribution. Therefore there is no guarantee that the IRA holder will roll the distribution back into an IRA. It is reportable as it is distributed and will be reported again as it is contributed into the new IRA. Rollovers must be completed within 60 days of taking the money out of the original account.
- **Contribute** new money from your personal funds to your new self-directed IRA.

You have several choices when it comes to funding your real estate purchase. Options include:

- Make a **direct purchase** using liquid funds in your IRA. This is the simplest and quickest way to buy property. Your IRA pays cash for the investment property and holds title to the property.

- **Partner** your IRA funds with other personal funds, with money in another IRA owned by you, or with personal or IRA funds owned by another person. You divide the investment according to each investor's investment amount. Learn more about partnering in our free report: **Partnering Self-Directed IRAs**.

- Make a **leveraged purchase.** Your IRA may borrow money to purchase a property with a non-recourse loan. Most banks and credit unions do not offer non-recourse loans, but The Entrust Group works with many non-recourse lenders.

- Form a **limited liability company** using IRA assets as a funding source. The IRA holds an interest in an LLC. The title of the property is held in the name of the LLC. Make sure to seek the assistance of a competent legal or tax advisor before entering into this type of arrangement.

You can learn more about all of these **ways to fund your real estate purchase** on The Entrust Group website.

3. Find the Right Investment

Working with a qualified, knowledgeable real estate professional is one of the best moves you can make. They are familiar with the local market and will work with you to look for properties that meet your needs.

Finding the right investment property depends on several factors, such as:

- Your investment goals. If you want a steady revenue stream, you will want to look at rental properties. If you are interested more in asset appreciation, vacant land ripe for development may suit you better.

- The amount of money you have to invest. What you can buy will depend on your local real estate market. Remember, you can partner with others, get a non-recourse loan, or form a limited liability company for the purchase.

- Whether the seller is willing to sell to an IRA. People unfamiliar with the concept may hesitate.

Before making a commitment, be sure to ask if the real estate professional has experience buying

property for a Real Estate IRA. An experienced advisor will be better positioned to make sure the paperwork gets done correctly. For example, real estate professionals familiar with the process know that the offer has to be made in the name of the IRA as the buyer.

4. Direct Entrust to Make the Purchase

When your offer has been accepted, Entrust handles the paperwork for the actual sale. Typically, that process looks like this:

- You complete an **Entrust Buy Direction Letter** and submit it with the purchase contract. Note that Entrust will sign the contract since it's your IRA that is purchasing the real estate and not you personally; you will sign as "read and approved."
- Once the contract is executed, Entrust will use your IRA funds to pay the earnest money deposit.
- You and your real estate broker open escrow.

5. Close Escrow

When the title company is ready to close escrow, you will submit the paperwork to Entrust, including the:

- Warranty or grant deed
- Preliminary title report
- Estimated closing cost statement
- Loan documents (if applicable)
- Documentation regarding the seller's entity formation (if applicable)

When Entrust has completed its review, we will fund the balance due on the purchase and the property will belong to your Real Estate IRA.

ONCE THE IRA OWNS THE PROPERTY

As the owner of the property, all related income and expenses have to flow through the IRA. That means rent checks are sent to your property manager or directly to The Entrust Group. If you employ a property manager or need to hire a plumber to make repairs, they are paid directly from the IRA. In addition, all agreements for property management services, insurance policies, and tenant agreements must be made in the name of the IRA, not you as an individual.

Read more about **how to manage property** in your Real Estate IRA and about how The Entrust Group **myDirection Visa® Prepaid Card** makes it quick and easy to pay for supplies and services.

TAKE THE FIRST STEP TO INVESTING IN REAL ESTATE IN YOUR IRA

Any one of The Entrust Group's trained representatives will be happy to explain how real estate investing with a self-directed IRA can add to your retirement savings plans. Please **contact us** for a free consultation.

ABOUT THE ENTRUST GROUP

Entrust strives to provide personal, professional services and education that empower clients to control their investment choices. You can rely on The Entrust Group for up-to-date training and continuing education about self-directed alternative investments. Our reports, webinars, and live events can help you keep up with the increasing demand to diversify portfolios.

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