How To:

Invest Your Self-Directed IRA in Real Estate

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Self-directed IRA:

A Self-directed IRA is an individual retirement account, which provides different investment options for the investor than regular IRAs.
Some of these options include:

- ➢ Private equity
- ➢ Precious metals
- ➢ Cryptocurrency
- ➢ Stocks and exchanges

One of the **best advantages** to a self-directed IRA is the ability to invest in real estate.

Self-directed IRA and Real Estate Investment:

Investing in real estate gives you the chance to earn monthly income along with capital gains. As an investor, you can purchase property to resell (flip) or rent out — this can mean single-family homes, condominiums, apartments, and even commercial real estate such as offices or strip malls. It all depends on your goals and what you're comfortable with. Some other options which will be covered later include mortgage notes, REITS, and land contracts.

There are tax advantages depending on the type of account you invest in. The earnings on the investment can be either tax free or tax-deferred depending on the type of account you choose. You can even use your existing IRA to invest in real estate. The available options are virtually limitless when it comes to self-directed IRAs in real estate.

Real Estate IRA Benefits	Real Estate IRA Options	Funding Your Purchase
• Tax free or tax-deferred earnings.	• Residential	• Direct Purchase
• Various investment options	• Commercial	• Partnering your IRA
• Secured investment	• Mortgage notes	• Leveraging
• Easy to start	• Offshore real estate	• Limited liability company
	• Real estate owned properties	• Additional funding

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Real Estate Investment Strategies:

1. Non-Recourse Loan

The difference between recourse and non-recourse loans is that in a non-recourse loan, if the borrower defaults the lender/issuer can seize **only** the collateral - usually the property purchased through the IRA - even if the collateral doesn't cover the full value of the investment lost. The financier of a recourse loan simply uses the IRA's capacity to reimburse the credit back.

Since the IRA holder can't stretch out their own credit value to the IRA, the IRA venture must have enough pay to warrant the moneylender subsidizing the non-response advance. To decrease the danger of reimbursement, non-plan of action banks regularly require the IRA to put a bigger up-front installment.

2. Real estate in an IRA LLC

A Limited Liability Company, or LLC, is a distinct legal entity. LLC proprietors, known as members, have "restricted obligation" which means they get risk insurance against their personal assets. Registering an IRA LLC is one technique IRA financial specialists have used to buy real estate.

Benefits of IRA LLC:

- Low cost
- Convenience

3. Partnering with your IRA

An IRA is considered a separate entity that can conduct business with others. This is a common strategy used in real estate investments. The process is simple, but you must be sure to adhere to IRA regulations and avoid engaging in any prohibited transactions:
A prohibited transaction is any improper use of your IRA by you, your beneficiary, or a disqualified person. Disqualified persons include your your fiduciary and members of your family, including spouse, ancestor, lineal ascendants/descendants, and their spouses.

How do you purchase real estate?

First, you need to have a listed account you can make purchases with by collaborating with another individual or purchasing as a sole owner.

Many companies provide different processes which help you make the best decision for your future investment.

A few of the important rules about investing in real estate through self-directed IRAs, are as follow:

- One cannot purchase property from a disqualified individual.
- One cannot sell or rent property to a disqualified individual.
- One, who is disqualified, cannot make a transaction from a self-directed IRA account.
- Income earned from this account must return to self-directed IRA account.
- All respective expenses will be paid from the IRA account.

Self-directed IRA and Promissory Notes/Lending:

This method allows one to lend money to a borrower, who is designated by the firm, by using a self-directed account and signing a promissory note. A promissory note is a written instrument that is signed by the borrower which clearly states that the borrower will have to pay an agreed amount upon the maturity date, keeping the terms and conditions constant. These terms and conditions include principle rate, repayment schedule and a collateral, if pledged.

Key points to remember:

- One cannot purchase from a disqualified individual
- A loan must be backed by “collateral” which must be an asset that is not considered a collectible Any income earned from this account must return to self-directed IRA account.

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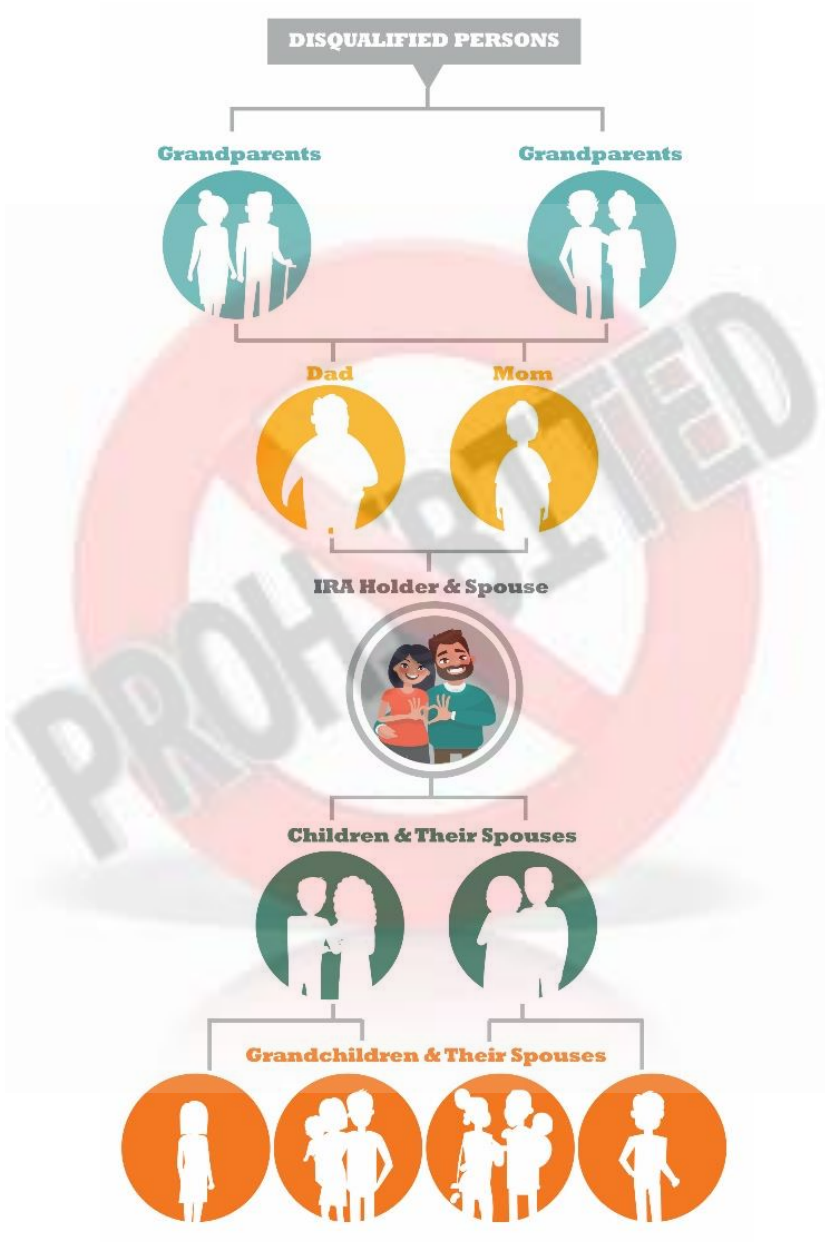
Who is a disqualified person?

Many prohibited transactions restrict from the involvement of a disqualified person. The following people are considered disqualified persons for the purposes of your self-directed IRA:

- You, the account owner
- A beneficiary of the IRA
- Your spouse
- Your lineal ascendants/descendants and their spouses
- Plan service providers and fiduciaries (including advisors, custodians, and administrators)
- An entity (corporation, estate, partnership, etc.) in which you own at least 50% of the voting stock, directly or indirectly.
- An officer, director or a 10% or more shareholder or partner.



Example of Investing in Self-directed IRA:

Example 1. You purchase a home for $100,000 and then sell it for twice that amount. If this property was a part of your self-directed IRA, the profit would directly go into the IRA account and will ultimately be tax-deferred, and the account will grow tax-free.

Example 2. Now pretend that you rent this same piece of real estate out annually for $40,000. If this property was a part of your self-directed IRA, once again, this income would go directly back to IRA and ultimately be tax-deferred.

Difference between Traditional and Self-directed IRA?

Self-directed IRAs can be set up as conventional IRAs or as Roth's. Be that as it may, remember, the two types have different tax treatment, requirements, contribution guidelines, and distribution rules.

A key difference between a traditional and Roth IRA is when you pay the taxes. With traditional IRAs, you get an upfront tax break, but pay taxes on your contributions and earnings as you withdraw them during retirement. On the other hand, when you contribute to a Roth IRA you don't get a tax break, but your contributions and earnings grow tax-free, and qualified distributions are tax-free, as well.

1. **What are the advantages of opening a self-directed IRA?**

The most important advantage earned from a self-directed IRA is tax-free income. Moreover, the investment is highly diversified. In this investment, the assets are secured and it potentially develops wealth for the investor.

2. **What are the different types of self-directed IRA?**

Different types of self-directed IRA are traditional IRA, Roth IRA, simple IRA, SEP IRA and Health saving accounts.

3. **How much does a self-directed IRA cost?**

The fees for self-directed IRA are dependent on the company offering the services.

4. **Can one invest in real estate with self-directed IRA?**

Yes, real estate is one of the most important and popular investment strategies. The investor has multiple options with different investment strategies.

5. **What investments are not allowed?**

Insurance contracts, S corporations and collectible transactions are not permitted by your IRA company

6. **What are important factors for a custodian?**

An investor must look at the following things in a custodian:

- Investment options, fees, insurance, disclosures and timing of services.

7. **When can I withdraw my money?**

To withdraw money without any penalty, one must be 59 and a half-years-old.

8. **Can I invest in my own business with a self-directed IRA?**

No, this type of transaction is prohibited.

9. **Are there any disadvantages to a self-directed IRA?**

Each investment has a certain amount of risk. A self-directed IRA is not an exception to that. For inexperienced investors, investment in a self-directed IRA can be considered a disadvantage.

10. **Should I wait to open an account if I don't have an investment ready right now?**

This question can be answered in multiple ways. First, assess your ability to invest in traditional assets while researching other opportunities. Second, once you have selected an alternative investment, any actions that delay this investment must be avoided. Finally, you should allow the custodian to process your request.

11. **Do I have complete control over my self-directed IRA?**

Yes – while your custodian oversees your account, you are still making the decisions. All the choices are yours, from the assets to the amount of money you put into them. As the account owner, you get to select everything related to your account. If you want to take charge of your retirement, this is the best choice for you.

12. **Can I rollover traditional and Roth self-directed IRA?**

Yes – you can transfer your traditional IRA to a self-directed IRA, or Roth IRA to a self-directed Roth IRA. The rollover process can be very simple, but you must go through the appropriate steps to make sure you can transfer the account successfully. As far as IRA rollovers, you should have no trouble.

We look forward to assisting you soon!