

Self-Directed Real Estate IRA – FAQ's

What is a Self-Directed IRA?

- A self-directed IRA is no different than any other IRA. Having a self-directed IRA simply means you are allowed to direct the investments of the IRA. While many custodians claim they allow you to self-direct your IRA investments, they typically limit what you can invest in. A truly self-directed IRA allows you to make the decisions without restriction.

What types of retirement accounts can be moved into Self-Directed IRA's?

- Traditional IRAs, Sep IRAs, Roth IRAs, 401(k)s, 403(b)s, Coverdell Education Savings (ESA), Qualified Annuities, Profit Sharing Plans, Money Purchase Plans, Government Eligible Deferred Compensation Plans, Keoghs

What can I invest in if I have a Self-Directed IRA?

- Many of the investments that you currently make outside your IRA can now be made within it. You the investor have tremendous flexibility to make the investments of your choice. Wouldn't it be great to be able to invest your IRA in: Residential Real Estate, Commercial Real Estate, Condominiums, Mobile Homes, Raw Land, Trust Deeds / Mortgages, and Mortgage Pools, Private Notes and Loans, Private Stock Offerings, Limited Liability Companies (LLC), Limited Partnerships (LPs), Tax Certificates, Receivables, Stocks, Bonds, Mutual Funds, Annuities, Options, Currency, Futures, Commercial Paper, and MANY other investments!

Can I invest my IRA in Real Estate?

- Absolutely. Although less than 3% of retirement accounts are presently allocated to non-traditional investments (i.e., anything other than Dow & Nasdaq stocks, bonds, mutual funds, CDs, etc.), and less than 2% are invested in Real Estate, that is changing. More and more people are becoming frustrated with the limited options offered by their current custodians. Individuals are increasingly seeking out investments that they can see, touch, and that have some tangible value such as Real Estate. They have seen the outstanding returns that investors have historically received in Real Estate and are more frequently interested in moving all or part of their retirement money into various Real Estate investments.

Is this a new Law?

- No, this is not a new regulation. You have been able to invest in Real Estate since the day IRAs were created in the 1970's! Unfortunately, investment firms will typically direct you only to those financial instruments offered by their company. At a bank you may be limited to CDs. At a brokerage firm you will likely be limited to stocks, bonds, and mutual funds. As a consequence, it has been a well kept secret that individual investors have many other options for their IRAs.

How do I know that this is Legal?

- This is a question that is frequently asked by many investors who have never heard that they could invest in anything other than stocks, bonds, and mutual funds. Real Estate has been an allowed investment since the day IRAs were first created over thirty years ago. Find out for yourself by going to the Internal Revenue Service's website www.IRS.gov. Request Publication 590. On pages 40-41 you will see what type of investments are not allowed (i.e., collectibles, life insurance, s-corporation stock, etc.). Note that Real Estate is not listed as a

disallowed investment, just as stocks, bonds, and mutual funds are not listed as disallowed investments.

What if I don't have enough money in my IRA to purchase a piece of property outright. Can I get a loan and use my IRA funds as the down payment?

- Yes, you can use your IRA money as the down payment and then get a loan for the balance. However, you will not be able to personally guarantee the loan. It must be a "non-recourse" type of loan, which means that if your IRA fails to make payments, the only recourse the lender has is against the property itself. In addition, there will be tax ramifications to doing so; UDFI (unrelated debt financed income) tax applies when a loan is obtained, so you would want to confer with your tax professional about what forms would be necessary.

Do taxes and penalties apply when I take money out of my IRA to buy Real Estate?

- No. You do not take money out to purchase Real Estate or anything else you want to buy. It is just another purchase within your IRA and there are no taxes or penalties. Instead of buying 1000 shares of Microsoft or any other typical stock, your IRA is just making a different type of investment. While the method of doing so is different, the tax ramifications are the same.

May I use my IRA funds to make improvements or renovations?

- Yes. In fact, you must use IRA funds to make the improvements and pay all expenses associated with the property. All expenses of the property are paid with IRA funds, and all profits made on the property are returned to the IRA. This makes sense because it is an investment of the IRA.

Are the gains that my Real Estate IRA makes taxable?

- Not in most cases. If an IRA buys a piece of property and then sells it at a profit, the gains stay within the IRA. If you have a traditional IRA, the gains are tax-deferred. If you have a Roth IRA, the gains are tax free. Note, tax liability may result if you financed part of your purchase.

I have a 401K with an old employer. Can I move it into a self-directed Real Estate IRA?

- Yes. You can move these 401K funds into a self-directed Real Estate IRA. It is done all the time. We can help facilitate the rollover so that you can unlock those funds for your next real estate purchase. A direct rollover is not a taxable event.

I have a 401K with my current employer. Can I move it into a self-directed Real Estate IRA?

- It depends on the 401K plan documentation for your current employer. It will specify what you can do, but most of the time you cannot move money from a 401K plan if you are currently working for the company. However, in some cases you may be able to unlock a portion of your 401K funds and self-direct those funds for real estate investing purposes.

I have several IRAs and old 401Ks. Can I combine them?

- Yes. They can all be combined and then invested into your Real Estate IRA so that your buying power is maximized. The only restriction is on 401(k)s; whereas you generally must no longer work for the employer. You can usually combine multiple retirement accounts into one account.

How do I get started?

- We can help! Call **CA Income Property** today at (714) 777-9482.

Take Control of YOUR Financial Future!