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The Sweetest Deal in Real Estate

by Allan Kuipers

Simply stated, it is **the ability to use your retirement plan to buy investment real estate!**

Do you have some type of qualified retirement plan, i.e an IRA, SEP, 401K, 403B, Health Savings Account or Coverdell Education Account? OK, that would be most of you!

Is your retirement plans in stocks, bonds, mutual funds and perhaps annuities and CD's? Again, that would be most of you!

Have you seen your retirement plans shrink 40-50% over the past 2 years and wish you could stop the bleeding right now? I hate to say it again . . .

You have probably talked with your trusted financial advisors and asked for a strategy - i.e. should we go to cash, do we ride it out, what do we do? Is there anything else you can do with my IRA or SEP or 401K (which you had when you left your last employer)?

The IRS has made it easy!

Either your advisor was not aware of any other strategy or if they were aware they're not talking. The truth is this: You can buy investment real estate with your retirement account. This has been IRS sanctioned since 1974. That is over 35 years ago! Yet, sad to say only 2-3% of all the IRA owners know this and have been making non-traditional investments for years (35 to be exact). Wouldn't you like to be in this group?

For once the IRS code has kept it simple by indicating only those investments that can not be made within your IRA/401K. These include: collectibles (antiques, stamps, alcohol) and shares in an S-Corporation or Life Insurance contracts.

Everything else is fair game - i.e. direct real estate (domestic and foreign), private loans, options, trust deeds, tax liens, tax deeds, start or buy a business, TIC's, oil wells, and on and on...... There are also some specific people you can not do business with such as your direct family members - i.e. father, mother, son, daughter, their spouses, your grandparents. Brothers and sisters are OK, by the way.

3 ways to self-direct: Self-Directed IRA, IRA LLC or Solo 401K

You will need a professional to help structure your IRA/401K to meet IRA/IRS guidelines.

Your **Self-Directed IRA** will need a custodian/trustee - i.e. Pensco, Entrust, Trust Company of America (just to name a few), and also an administrator . . . .
then your custodian will be in charge of making investments per your directive and assess you any fees along the way. Having a custodian write the investment check can also be somewhat cumbersome. You may find an investment opportunity that demands quick action and find that your custodian is unable to act as expeditiously as needed. The custodian will be holding all your retirement monies.

You may decide that you would rather have the checkbook control of an **LLC** for your IRA. This allows you greater flexibility to find an investment and write a check yourself as the manager of the LLC. You also eliminate the cumbersome aspects, minimize many custodial fees and speed up your IRA's ability to find and procure an investment.

If you are self-employed it makes a lot of sense to set up a **Solo 401K** which allows you to do the same things as a self-directed IRA and IRA LLC and much, much, more. The potential for wealth-building is huge. While the self-directed IRA or IRA LLC (regular or ROTH) allows an individual to put away $5000 in 2009 or $6000 if you are over age 50; the Solo 401K allows you to put aside up to $46,000 or $51,000 with the over age 50 catch up provision.

You do not need a custodian and you can borrow up to 50% of the total funds to a maximum of $50,000 from your Solo 401K with repayment over 5 years. You are your own custodian/trustee and have checkbook control over the Solo 401K in making all manner of traditional and non-traditional investments.

Now Buy Real Estate!

Once your IRA/401K is set up properly (just paperwork and fees with the help of a qualified professional and your account is funded), then and only then can you use your Self-Directed IRA, IRA LLC or Solo 401K to buy an investment property or make other types of non-traditional investments. You can even get leveraged financing through a non-recourse loan in which the lender can only look to the property in case of default and not to the IRA or 401K holder.

Think of the diversification possibilities! You can leave part of your funds in the traditional IRA/401K with stocks, bonds, and/or mutual funds or roll it all over into a truly Self-directed IRA, IRA LLC or Solo 401K.