

# Yes. You can invest your IRA funds in real estate!

Still reeling from the recent performance of the stock market, sophisticated investors are looking for alternative investments for their IRA funds. One option is to have your IRA invest in real estate, including rental real estate.

In order for your IRA to invest in real estate, first you must find a trustee who handles this type of transaction. Many choices are currently available, and your tax professional can help you locate a reputable trustee.

Please watch your step! Following are some basic issues to keep in mind.

Care should be taken not to violate the prohibited transactions rules involving certain dealings between the IRA and certain related individuals (entities). Such a violation could result in a 15 percent excise tax being assessed against the individual, which may increase if the transaction is not corrected.

Real estate must be owned by the IRA or an entity (such as an LLC) in which the IRA invests. The individual owning the IRA cannot directly own the real estate.

The IRA owner cannot sell the property to the IRA.

The IRA owner cannot guarantee debt for the real estate.

The IRA owner cannot use the assets of the account for personal benefit. For example, an IRA cannot buy vacation property to be used by the IRA owner or certain family members.

Real estate transactions that are leveraged may generate an unrelated business income tax based on the leverage-to-equity ratio. Cash transactions may be preferable.

The need for liquidity of the IRA may make real estate investments unattractive. If you are required to take minimum distributions due to your age or if you will need the distributions, you should carefully consider before having your IRA invest in real estate.

Although capital gains generated within the IRA may not be currently taxed (unlike capital gains outside an IRA, which could be taxed at the current maximum federal capital gains rate of 15 percent), future distributions from the IRA will be taxed at ordinary income rates. However, using your Roth may eliminate the tax on future distributions.

Future estate issues should be considered.

Investing IRA funds in real estate should always be handled with care. The IRS and the Department of Labor are both involved in governing these transactions. Unfortunately, the applicable regulations are both complex and vague. Therefore, you should consult your tax professional for the most current interpretations.

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**The information mentioned here in above is of general nature and cannot be regarded as legal or tax advice. For more information, please contact Anne Tahim at 714-772-4744**