

# How To Supercharge Your IRA Returns With Real Estate

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Investing in real estate for your retirement may serve as a means to diversify your retirement portfolio. You now have a way to hedge against the cyclical changes in the stock market, bonds, the economy, and bank and government based investments. Land and property are **loosely** correlated to the stock market; the value of real estate tends to **rise** when stocks are going **down**. Real estate is the ultimate hard asset. There are no corporate and accounting scandals. It is a tangible asset, and not just a paper certificate. There is great downside protection because real estate inherently maintains value, as contrasted with stocks, where the entire investment could go to zero! Investing in the right international real estate is a smart way to diversify your retirement portfolio! And, investing in Costa Rican real estate with its historical appreciation rate of 32% per year is your best option!

A little known option for investing in real estate is using your Individual Retirement Account. So how do you do it? You simply complete a **tax-free rollover** of your existing **IRA** from your current retirement account custodian to an **IRS** approved custodian that allows you have a **Self-Directed IRA**. These custodians are commonly called “**Self Directed IRA Administrators**”.

Investing in real estate within an **IRA** is not a new concept. In fact, there are more than \$7 trillion dollars held in retirement accounts with 3% of those retirement accounts currently in **Self-Directed IRA**'s with real estate holdings. Real estate investment within your **IRA** is a viable, productive alternative to mutual funds, stocks, bonds and your typical brokerage accounts.

What types of retirement accounts can be moved into a **Self-Directed IRA**? That's easy; traditional **IRA**'s, SEP **IRA**'s, Roth **IRA**'s, 401K's, 403B's, Coverdell Education Savings, Qualified annuities, profit sharing plans, money purchase plans, Keoghs, government eligible deferred compensation plans. In other words, **virtually any and every retirement account!** Once you have opened your **Self-Directed IRA**, you are free to use those funds to purchase raw land, improved real estate or a variety of investments previously unavailable to you with your traditional retirement accounts. The rules governing allowable investments by **Self-Directed IRA**'s preclude an **IRA**'s investment in life insurance, collectibles (artwork, antiques, coins, gems etc.) and S-Corporations. Virtually, all other types of investments are permitted, and thus the range of possible investment choice is nearly

unlimited. Consequently, your *Self-Directed IRA* can purchase **any** form of real estate.

As to be expected, there are important rules and regulations to follow, however, they are very simple and reasonable. Some of the most notable are: 1) the real estate must be an investment property, not a personal residence for you or family members. 2) You are not allowed to personally guarantee a loan for your *Self-Directed IRA*; you can however use a commercial *non-recourse* loan. 3) When you buy real estate the seller cannot be a disqualified person. A *disqualified* person is yourself; your spouse, your children, your parents or a corporation in which you or any other *disqualified* person owns a 50% or greater beneficial interest. 4) The *Self-Directed IRA* is responsible for all expenses related to the asset for the life of the investment, additionally, any income generated by the asset must be received by the *Self-Directed IRA*. Although some additional rules apply, the aforementioned are the most pertinent. Not to worry however, a good *Self-Directed IRA Custodian* will ensure that you are always in compliance with **IRS** rules and regulations.

Some additional features of a *Self-Directed IRA* include the ability to partner with other individuals, their IRA's, any other qualified or disqualified individual, and even **yourself** (with your personal non-retirement funds). The *Self-Directed IRA* is responsible for all expenses related to its asset for the life of the investment. If your *Self-Directed IRA* is partnering with another investor, each bill must be paid according the initial established ownership ratio. As previously stated, it is acceptable for your *Self-Directed IRA* to partner with personal funds or disqualified persons. However, it is extremely important to remember that the ownership percentages must be kept constant throughout the deal and all expenses as well as income must be split according to that ratio. It is also important that the dollar amounts be proportional to percent ownership among all qualified and disqualified persons. Because all property expenses, including taxes, insurance and repairs, must be paid from funds in your *Self-Directed IRA*, you'll need liquid funds available in your account. All income generated from the property will be deposited in your *Self-Directed IRA* account so you can use that money to cover costs. Additionally, you can make annual contributions to your *Self-Directed IRA* according to federal guidelines.

Investments in your *Self-Directed IRA* are **NOT** just limited to individual parcels of land and improved real property. You can even purchase shares of a Limited Partnership, Land Trust, C-Corporation, Limited Liability Company, TIC (tenant in common interest), REIT's and more! For the long term investors out there, you will be happy to know that you can even

choose to withdraw real estate from your *Self-Directed IRA* and use it as a residence or second home when you reach retirement age. At that time, you can elect either to have the *Self-Directed IRA* sell the property, or take an in-kind distribution of the property. Under that arrangement, your *Self-Directed IRA* custodian assigns the property title to you. You will then have to pay income taxes on the current value of the property (*at your then current tax rate, presumably much lower than during your working years*). These taxes are just as you would pay for any distribution from an IRA, regardless of whether the asset is real estate, cash, stocks, bonds or mutual funds. However, if the property was held in a *Self-Directed Roth IRA*, you won't own taxes at all! This makes a *Self-Directed Roth IRA* extremely attractive if you anticipate that your real estate investments may one day become your retirement home.

Success in investing comes from hard work and knowledge. We all know that knowledge is power. Reading this article is the first step in acquiring the knowledge necessary to supercharge your retirement account returns and take complete control of your financial destiny. I urge you to further your knowledge with additional research and the professional assistance of a qualified *Self-Directed IRA Custodian*. A quick "goggle search" for *Self-Directed IRA Custodians* will provide you with nearly a dozen website addresses for the larger *Self-Directed Custodians* operating throughout the United States. Additionally, you can call Michael Starkey at 1-800-281-4145, and he will be happy to discuss his experiences with *Self-Directed IRA* investing and recommend the Custodian that is best suited for your particular needs.

The Developer of *Hacienda Matapalo* is extremely well versed in the use of *Self-Directed IRA*'s for real estate investment. Having this knowledge has allowed the Developer to work with Buyers on an individual case-by-case basis, customizing contracts based upon that particular individuals needs and working capital. In fact as of Fall 2007 nearly 23% of the purchases in *Hacienda Matapalo* were made with *Self-Directed IRA*'s. Whether you are looking to invest in raw land, rental property or a vacation home, the Developer of *Hacienda Matapalo* can help you harness the power of your *Self-Directed IRA* to help make that dream come true.

Michael Starkey is a Licensed Real Estate Agent with Investors Realty Costa Rica. He has an extensive background in both real estate and securities investing. Michael graduated with a degree in Banking and Finance from Hofstra University and worked on Wall Street prior to joining Investors Realty. He is very knowledgeable with the allowable investment choices for use with all types of retirement accounts and is always willing to teach others how to maximize and diversify their portfolios. Michael can be reached in his Fort Lauderdale office at 1-800-281-4145. Feel free to give him a call with your investment questions. He will be happy to help.