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## Self-directed IRA and IRA LLC for Real Estate

*by Phoebe Chongchua*

Many people are concerned with building wealth so that they can retire comfortably. A decades-old form of investing and creating wealth is gaining in popularity as people search for creative ways to buy real estate.

Investing using your IRA is a complex strategy that I have written about before, but because it is often misunderstood and generates so much interest, it's well worth further exploration.

The self-directed IRA and IRA LLC (Limited Liability Company) are vehicles to invest in real estate. However, they are not often used because many people are erroneously told by their IRA trustees that you cannot use the account to invest in real estate.

Actually what you have to do is simply find a company that offers the option of using a self-directed IRA to invest in real estate. This can be an extremely beneficial investment tool because IRAs come in two forms: tax-deferred and tax free.

The traditional tax-deferred IRA allows yearly contributions to a tax-deferred account using your pretax dollars. You are not taxed when you deposit into your IRA; you are, of course, taxed when you withdraw the money upon retirement.

The tax-free, Roth IRA, allows yearly contributions of after-tax dollars. You're not getting a tax advantage in the year of the contribution, but growth of the entire retirement account is tax free as well as the income distributions when you retire.

Many types of IRAs can be converted to self-directed accounts including: 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, and Keoghs.

The creation of a self-directed IRA or IRA LLC enables you to choose what you would like to invest your money in -- it can be raw land, single-family homes, condominiums, apartments -- to name a few.

"A lot of people want to identify retirement property or identify rental property and they're going to rent it out until they want to retire and it's only one or two IRAs -- then they can do the investment

directly," says Attorney Debra Buchanan of Legal Strategies, P.C. who specializes in asset protection, estate planning and business planning.

Buchanan highly recommends an LLC because it is flexible and you can add and subtract investment partners easily.

"When I set you up as the manager then you have the checkbook control," says Buchanan. She adds, "Then every time you are going to invest in a new property you don't have to have the custodian approve the transaction."

"But if somebody is going to invest with one property for a long-term investment then you don't need to use the LLC strategy," says Buchanan.

A word of caution -- always make certain that the transaction is not prohibited. Setting up an LLC and using an attorney who gives you an opinion letter (stating whether the transaction is legal or prohibited) is valuable protection for you.

Navigating through the process of setting up a self-directed IRA or IRA LLC can seem overwhelming. Using qualified experts to guide you through the process will help keep you out of financial troubles that could cost you your entire investment. A good resource for more details can be found here.

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