



SELF-DIRECTED IRAs & REAL ESTATE

Top 30 **Real Estate Investor** Questions

A self-directed individual retirement account (IRA) gives you the freedom, flexibility, and choice of how to invest your hard-saved dollars. Real estate assets are among the most popular investments in self-directed IRAs. These investments grow tax-free or tax-deferred.

We've answered frequently asked questions of real estate investors to help you understand the basic rules of self-directed IRAs.

1. How do I fund a real estate purchase with my IRA?

There are several ways to fund a real estate purchase using a self-directed IRA. You don't need to have the full purchase amount in your IRA to buy property. Here are some of the most popular strategies for funding the purchase.

1. Direct Purchase

Direct Purchase is when your IRA purchases the asset using only money in your self-directed IRA. Your IRA pays all-cash for the investment. It is the simplest and quickest way to fund a purchase.

2. Partnering

Partnering is when you bring in other sources of cash to fund the purchase. You can partner with other people's IRAs or with their personal funds. You divide the investment profits and expenses among investors based on ownership percentage.

3. Non-Recourse Loan/Leveraging

Leveraging is when your IRA takes out a loan, typically known as a non-recourse loan. This sort of credit is common in IRA real estate purchases but cannot be obtained by going through traditional means. We work with many non-recourse lenders. Contact us to learn more.

4. LLC/Checkbook Control

LLC/Checkbook Control is the process of establishing a limited liability company (LLC) with IRA funds and using the LLC to buy the asset. The investment is then held in the name of the LLC. These are called Checkbook IRAs because you have direct access to your IRA funds via a checking account that is owned by your IRA LLC. IRAR does not sell or create LLCs. To learn about how to form an LLC, visit the IRS website or your local SBA district office for more information.



Request a free
consultation
to go over
your strategy.

2. How long does it take to make a typical real estate purchase?

This depends on the complexity of the transaction. If the funds are available in your account, IRAR needs three days to process the transactions. A simple transaction, buying one piece of real property without underlying loans, may take five days. A complex transaction where there are multiple sellers and buyers may take thirty days or more.

TIP: It is highly recommended that you get the funds in your IRAR account as soon as possible to expedite the process. Transferring the funds from one custodian to another might take up to 7 days. Also, make sure to title documents properly so that these are not rejected. (see question #22)

3. Are there restrictions on the type of property I can purchase? Am I restricted to residential properties?

No, you can purchase a variety of investment properties and real estate, such as commercial buildings, vacant land, condos, mobile homes, and apartment buildings. You can also invest internationally.

TIP: It is highly recommended that you use a title company when purchasing real estate to ensure that the deed is recorded in the name of your IRA. When investing internationally, find out if the land can be held in the name of the IRA. Sometimes an entity is required.

4. Do I need a property manager to manage the property within my IRA?

It's is not required but highly recommended. The Property Management Agreement is signed by IRAR for the benefit of the IRA at the direction of the IRA account owner. You can hire any third party who is not a [disqualified person](#).

Some of our clients use a property manager for the purpose of consolidating the various expenses. Another advantage when partnering with others, is that your tenants do not have to write multiple rental checks to the various investors. Tenants write one check to the property manager, who then distributes the percentages accordingly.

Property managers send the IRA's percentage to IRAR for deposit, along with the profit and loss statement. It is preferred if the profit and loss statement is sent monthly. If a property management company is not managing the property, the rental income should be sent to IRAR to be deposited directly to your IRA account, unless an LLC was used to make the real estate investment.

TIP: Do not engage in sweat equity. This means personally being involved in hands-on work adding value; like doing repair work on the property. See IRC 4975.

5. Can I collect the rental income from tenants?

Yes. IRAR does permit clients to receive the rental income for record keeping. However, the checks must be payable to the IRA (not the IRA holder) and sent to IRAR for depositing to client's account. The IRA owner cannot deposit the rent in a non-IRAR account.

6. Can I sell the property to myself?

No. Pursuant to [IRS Code 4975](#) the IRA holder is a disqualified person, and the direct or indirect furnishing of goods, services, or facilities between an IRA and a "disqualified person" is [prohibited](#).

7. Can I use my investment property as a second home?

No, the property is for investment purposes only and not to be used personally.

8. I am buying property out of state. Can I bill my IRA for my travel expenses?

No, you cannot. However, you can request a distribution to pay for the expenses. Your distribution might be subject to taxes depending on your age and the type of IRA you own.

9. Do expenses like utilities, repairs, taxes, and mortgage payments need to be paid from the IRA account?

Any expenses for a property within your IRA must be paid via the IRA. You cannot use personal funds to pay for expenses incurred by the asset within your retirement account because it is prohibited by the IRS. See [IRS Code 4975](#). When you have a bill you simply instruct IRAR ([use a PAL](#)) to pay it on behalf of your IRA. If you use an IRA LLC/checkbook control, your IRA LLC will pay all the expenses.

10. Can I transfer rental property I own personally to my IRA?

No, this is considered a [prohibited transaction](#). Your IRA cannot buy property that you currently own. See IRS Code 4975 for information on prohibited transactions, disqualified persons, and self-dealing.

11. Can my kids live in the home that my IRA owns and pay my IRA rent?

No, because they are disqualified persons. You cannot buy a house or vacation property for you, your spouse, or your lineal ascendants or decedents to use while your IRA owns it. Visit our website for information on [prohibited transactions and disqualified people](#).

12. I am a contractor. Can I rehab the property that my IRA owns?

No, you cannot rehab the property, whether it be at no charge, or at going rate. This is considered “Sweat equity”, which is not allowed. Any rehabbing must be performed by a non-disqualified person.

13. If I submit a distribution request, can I distribute a percentage of the property, or do I have to distribute it all?

Yes, you can distribute a percentage of the property. This is called an in-kind distribution. However, this does not mean that you can live in the property until it is fully distributed.

14. Am I required to rent the property or can it be vacant?

The property doesn't have to be rented as long as the IRA has sufficient cash to pay for all the expenses related to the property. Remember that all income goes to the IRA and expenses come out of the IRA. If there are insufficient funds in the IRA to cover the expenses, the IRA holder has the option to rent the property, transfer funds from another IRA, make a contribution, or liquidate other IRA assets to pay for the expenses.

15. Who can my IRA partner with to purchase property?

At the time of initial purchase, your IRA can partner with anyone, including a disqualified person. But after the transaction is closed, your IRA cannot buy, sell, or transfer to any disqualified person.

16. Can I get a personal loan on the property that my IRA owns?

No, using an IRA asset to secure a personal loan is a prohibited transaction and referred to as “self-dealing.” Everything the IRA engages in must be for the exclusive benefit of the IRA. Self-dealing occurs when an IRA owner uses their IRA for their personal benefit rather than to benefit the IRA.

17. Can my IRA borrow money to purchase the investment property?

Yes, your IRA can obtain a non-recourse loan. The IRA is the borrower of the loan. The loan documents are signed by IRAR on behalf of the IRA at the direction of the IRA account owner.

TIP: Contact us for a list of companies that lend to IRAs.

18. What is a non-recourse loan?

A non-recourse loan is a loan that is secured only with collateral, which is usually the property. If the borrower defaults, the lender can seize the collateral, but cannot seek out the borrower since the loan is not guaranteed personally by the account holder, even if the collateral does not cover the full value of the defaulted amount. In this situation, the borrower does not have personal liability for the loan. It is not typical to obtain a non-recourse loan from a bank. Borrowers usually have to find private lenders. The IRA account owner must do the research to obtain a non-recourse loan.

TIP: Contact us for a list of companies that lend to IRAs.

19. What is Unrelated Business Income Tax (UBIT)?

Unrelated business taxable income (UBIT) is income received by a tax-exempt entity, like an IRA, that is earned by a business or trade. For example, when an IRA owns a business entity, such as a limited partnership (LP) or limited liability company (LLC), the income produced by the LLP or LLC is passed onto the IRA. The LLP or LLC could be in any business or trade, from a printing press or a bakery to a daycare center. With some exceptions, the income is likely to be UBIT.

Income that is exempt from UBIT includes rental income, dividends, and royalties, among others. For example, if an IRA owned an apartment building, the rent would not be UBIT. See [Publication 598](#) for information on UBIT.

20. I am going to an auction to bid on property. I need a cashier's check issued in my name. What do I need to do?

Cashier checks cannot be issued in the IRA account owner's name because this constitutes a distribution. Cashier checks must be payable to the auctioneer, county, or third party who is not a disqualified person to the IRA. To fund an auction purchase you need to complete an [Auction Buy Direction Letter](#).

21. What is the difference between the IRA purchasing the property directly and having an IRA- owned LLC or LP purchase the property?

The key difference is that when an IRA purchases the property, the IRA holds the title; if the LLC or LP purchases the property, it holds the title. Utilizing an LLC or LP to purchase the property also affords greater control (with more responsibility) to the investor, enabling them to sign the closing documents for the purchase, and allowing for check-writing privileges. This provides immediate access to funds and diminishes IRAR transaction fees.

22. What if I already have a contract in my name and I want the IRA to purchase the property?

The contract must be vested in the name of the IRA because the IRA and the IRA holder are two separate entities. The IRA account owner (or any disqualified person) should not assign their interest to the IRA because it might be a prohibited transaction. The proper way to handle this is to start a new contract with vesting as follows:

IRAR Trust FBO [account owner's legal name or plan name], account # [account number].

If there is an error in the vesting, you may be able to provide an assignment or amendment to the contract by changing the vesting as indicated above.

23. Where should income be sent and how do I pay for expenses?

All income and expenses are sent to IRAR's office for processing. Rental checks must be made out to:

IRAR Trust FBO [account owner's legal name], account # [account number]. For expenses, complete IRAR's Payment Authorization Letter and send it, along with a copy of the invoice or bill, to our office.

24. Can I personally pay for an expense and get reimbursed by the IRA?

All real estate expenses, such as mortgage payments, property taxes, insurance, HOA dues, and repairs and maintenance, must be paid directly from the IRA. If these expenses are paid with personal funds, it could be considered a prohibited transaction.

25. What does IRAR require to fund a real estate transaction?

See our forms page for documentation needed to fund a real estate transaction. Initially, we require a Real Estate Purchase Offer Review Form. Please make sure that your account has sufficient funds before engaging in a transaction.

26. How long does it take for my transaction to be processed after receiving the closing documents?

Closing documents are reviewed within three business days. If no corrections are needed, IRAR funds within the following 1-2 business days. For an expedited review request, a special handling fee applies. The expedited review time doesn't guarantee the funding of the transaction if the paperwork is incomplete or changes are required.

27. I want to put my living trust on title for the investment property that my IRA will be purchasing. Is that possible?

No, a living trust is not permitted to hold title on the property. However, you can name the Trust as the beneficiary IRA.

28. Can I represent myself as the agent for the transaction?

Yes, but you cannot receive commission for the transaction. That would be considered a prohibited transaction.

29. What due diligence should be performed prior to making a real estate purchase?

Consult with your real estate professional to assist you with performing the necessary due diligence on the property to fit your individual needs.

Here are a few tips:

- Verify that the title can be held in the name of an IRA.
- Verify that the title company is familiar with self-directed IRA transactions.
- Set a realistic timetable for the transaction.
- Decide on how the property is best acquired – direct real estate purchase, leveraging a non-recourse loan or through an LLC.
- Find someone local to handle property management.

30. Can the property insurance policy be in my name?

No. The policy should be in the name of the IRA. IRAR must sign the agreement on behalf of the IRA.



About IRAR Trust Company

IRAR's mission is to empower clients to grow their retirement savings at lower costs. We've specialized in holding alternative assets in self-directed IRAs since 1996. Our business partners and clients rely on our excellent service and expertise to invest in assets such as real estate and private placements. The IRAR team holds the Certified IRA Specialist Professional designation (CISP) and participates in ongoing educational and compliance programs. Together, we leverage our knowledge to provide accurate and timely service to all investors.

1.888.322.6534 | 6825 La Jolla Blvd, La Jolla, CA 92037 | info@iraresources.com

IRAR does not promote investments – rather, we provide the resources to make self-direction easy, cost-effective, and compliant. For more information visit www.iraresources.com.