YES!

YOU CAN INVEST IN REAL ESTATE WITH YOUR IRA!

THE OFFICIAL SELF-DIRECTED IRA INVESTORS GUIDE

IRAR TRUST COMPANY

IRA RESOURCES, INC.

CHAPTER 9

PARTNERING YOUR IRA TO INVEST IN REAL ESTATE

So, you want to invest in real estate with your IRA, but don't have enough money to buy the property outright. Does that mean you're stuck investing in stock? No! Lucky for you, there are plenty of other options for determined investors. Discover one of the most common strategies: partnering your IRA.

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Introduction

If you don't have enough funds in your IRA to buy a property outright, you've got more options for funding. Partnering your IRA with one or more other investors is a popular investment strategy.

Though these self-directed IRA real estate investing strategies have their own separate processes, this strategy can be mixed and matched in many ways.

What is IRA Partnering?

Partnering is one of the common ways an IRA can make real estate investments without having enough money for the entire purchase amount. You can partner with any person (yes, even a disqualified person at the time of a new purchase), another person's IRA, or a company.

Our clients often choose to partner to maximize their investment opportunity and the funds they have available. Partnering your IRA may let you purchase investment properties outright or make a larger real estate investment. Here is step-by-step how they are doing this.

Partnering with Disqualified Persons

On a new transaction, you can partner with anyone, even yourself or another disqualified person. A disqualified person is you, your spouse, and your lineal ascendants and descendants (children, grandchildren, etc). You can partner using your retirement funds from multiple IRAs, partner IRA and personal funds, or partner with your children, spouse, friend, business partner and/or their IRAs. The potential is endless! And, this is one of the few times you can invest with a disqualified person, so take advantage.

However, there is one thing to keep in mind when partnering your IRA—future prohibited transactions. Make sure that you structure your deal so that you don't break the rules down the line. For example, if you partner with your spouse and down the line, your spouse wants to sell their share of the property, your IRA could not buy it because you are a disqualified person to their IRA.

Partnering your IRA is straightforward and many of our clients do it. You'll want to make sure it's an "arms-length" investment to avoid any prohibited transactions. Consult with a financial or tax professional to finalize your partnering strategy.

What's Considered a New Transaction?

An investment is considered a new transaction if this is the first purchase of the investment property. So, if your IRA is newly purchasing the property, you can partner with anyone you'd like. If the IRA decides, at some point in the future, to sell part of the investment and bring in a partner, this wouldn't be considered a new transaction. In this situation, the IRA wouldn't be able to bring in a disqualified person as a partner.

How To Invest in Real Estate With A Partner

So, partnering sounds pretty good and you're ready to get started—great! Here's what you need to do to bring in a partner and start investing with your self-directed IRA:

STEP ONE:
Open And Fund Your Self-Directed IRA

If you haven't already, you'll need to open a self-directed IRA before you start investing. You can do this online and submit it along with a copy of your photo ID. Have a credit card ready to pay the $100 account opening fee. See our fees page if you'd like more detailed information on the costs of a self-directed IRA.

The next step is to move retirement funds into your self-directed IRA so you can make your investment. There are 3 ways to do this: You can make an IRA contribution, an IRA transfer from a previous custodian, or a rollover from another retirement plan. Most commonly, real estate investors transfer or rollover their funds. For either of these methods, you'll need a recent statement from the retirement account the funds are coming from, along with the appropriate form (either an Account Transfer Form or Rollover/ Direct Rollover Certification Form). Check out Chapter 6 for details on how to move funds.

STEP TWO:
Finalize the Partner Details

Next, it's time to find a partner to help you fund this deal! Once you've located a trustworthy partner, you'll need to spell out how the partnership will be structured. Make sure both you and any partner you bring in on this deal understand how the process works before making your investment.

When partnering, each partner is purchasing a specific percentage of the property (called the percentage of ownership), and all income and expenses need to be divided according to the same percentage. Determine how much money each partner is contributing towards the investment ahead of time. Making sure everyone has a clear understanding can help prevent major headaches down the road.

It's also very important to talk about strategies before making an offer. For example, if your partner is using IRA funds to make the investment, they will also need to establish a self-directed IRA.

Combining Strategies

Your strategy can also include checkbook control or limited liability companies. Say you wanted to have access to funds quickly to make repairs, you can establish an IRA LLC and you and your partner can control the income and expenses of the IRAs but you would be responsible for all recordkeeping. This too will be covered in future chapters.

What if you still do not have enough for the investment? You and your partner can get a non-recourse loan. This is a loan to the IRAs (if both were using IRAs). This is covered in the next chapters so stay tuned.

In simple terms, you could bring in a partner, get a non-recourse loan, and establish an IRA LLC if that is your strategy. You are not limited to just one strategy.

STEP THREE:
Find an Investment Property

Once you've found a partner and worked out the details, you've got to find your investment property. How you do this varies from investor to investor, but there are plenty of resources on the web. As a Self-Directed IRA provider, IRAR Trust Company does not promote specific investments.

STEP FOUR:
Make an Offer on Your Investment

After the prep work is taken care of and the plan is in place, it's time to make an offer on your property! This process is similar to any other real estate IRA purchase, but you need to make sure to title all documents in the name of both the IRA and the partners, with the appropriate percentages spelled out explicitly. For example, if two IRAR clients decided to partner on a real estate investment, the documents would read:

> IRAR Trust FBO John Doe IRA #12345 an undivided 50% interest and IRAR Trust FBO Jane Doe IRA #54321 an undivided 50% interest

From there, the process is much like a typical real estate closing, except all expenses during the process must be split and paid according to the percentage of the property ownership.

Tips

Property Income and Expenses

If the property taxes need to be paid, each partner's IRA would pay the property tax bill. Each partner would submit a Payment Authorization Letter with a copy of the bill to let IRAR know what bill to pay, and how much based on percentage of ownership. In our example it would be 50-50.

The same is true for income. When the property sells, 50% of the proceeds will go to each IRA. Depending on the type of IRA that you have (Traditional IRA or Roth IRA), you may not have to pay taxes until you reach retirement.

Taking Distributions In Retirement

To take distributions from an alternative investment, in this case real estate, you would distribute a percentage of the property and pay the tax due on the value or amount distributed. This is explained in more detail in future chapters. Just know that it is possible and many of our clients do it now.

Transaction Fees

As with any other investment, there are transaction fees. The fee for a real estate purchase at IRAR Trust is $175, with a fee for the method you use to send the funds for your investment ($7 for a check, $30 for a wire, no charge for an ACH). The fees would apply to each client. Although you are making one purchase, IRAR would be doing the recordkeeping and reporting for both IRAs.

In a Nutshell

Many IRA investors don't realize they can partner, and they can do it with individuals you normally can't partner with. You can even do it with personal funds on a new deal. This makes it a particularly useful strategy for self-directed investors. Just think of it as a way to stretch your funds to purchase investment property and open many additional opportunities!

Whether you're partnering to buy the real estate through a direct purchase, or with a non-recourse loan, contact a qualified investment advisor or financial professional to help you establish your strategy to make sure your investments are in a tax advantaged environment.

READY FOR THE NEXT CHAPTER?

CHAPTER 10:

How to Invest in Real Estate Using a Non-Recourse Loan: Step By Step